Economics in Action . Nov. 1954

Early fall figures fail to corroborate those economists and businessmen who prophesied a dramatic business upturn before the year is out. Only the usual seasonal pickup is indicated:

Steel output has finally recovered from its summer doldrums and is expected to remain at above 70% of capacity for the rest of the year as fabricators exhaust their inventory and start buying again. But steel mills do not expect large orders, and output will probably remain approximately 25% below last year's high levels.

Credit, another important economic weathervane, is causing some concern. As a rule, when business is expanding there is an increase in the amount of money that is borrowed; and when it is contracting there is a decline and loans are repaid. Early fall usually sees a rise in loans to meet the customary seasonal expansion of business, but this September the total of such loans reported by members of the Federal Reserve system has actually declined.

Consumer spending, on the other hand, promises to sustain the economy at a high level. Surveys of consumer buying intentions all point to a record Christmas business, and merchants are generally cheerful. Retail sales in August were only 1% below last year, and indications are that September and October sales were equally good, if not better.

These three important indicators point to stability and long-term growth rather than boom conditions in the near future.

Basically, the economy will have to rely on the consumer rather than on Government or business spending for any marked upturn in business conditions:

Federal Government expenditures for fiscal 1954-55 will be $3.6 billion less than for the fiscal year that ended this June—and $1.6 billion below Administration estimates of last January. Moreover, there is some reason to believe that spending may be cut even further since revenue estimates have also been revised downward with the result that Administration experts now predict a $4.7-billion deficit for fiscal 1954-55. This is $1.8 billion above January estimates and Treasury officials have hinted that they may cut spending to reduce this figure.

Capital expenditures by business for plant and equipment are running about 6% below last year, and a further decline—in spite of more generous tax depreciation allowances—is indicated.

Inventory accumulation before the beginning of next year does not appear likely as of this writing, although indications are that the pace of inventory liquidation will taper off. August, the latest month for which figures are available, showed a further decline in manufacturers' and wholesale inventories, but unlike the first half of '54 most of the reduction was in finished goods stocks while purchased materials stocks actually rose. This could mean that manufacturers are getting set for a big production drive.

Any short-range business expansion, however, will not be sparked by Government or industry spending.

Figures on consumer expenditures play an increasingly important role in business planning, but they are not easy to evaluate:

Over-all consumer spending, which includes all goods

(Cont'd on p. 63)

Challenge

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a personal note

WHEN IT COMES to finding sufficient media to put across a message, the United States is a communicator's dreamland. No one appreciates this fact more than the men of the advertising profession. No one makes better use of our thousands of newspapers and magazines; millions of radio and television sets; and the thousands upon thousands of billboards and car cards—to say nothing of the special displays and signs which have been designed to move people to act.

Under these circumstances, it was inevitable that the advertising men should be asked to move into the field of stimulating public interest in economics. That advertising men should be engaged to put across such esoteric concepts as the necessity of fighting inflation, the beneficial results of a constant flow of investment capital and the lasting effects of a steady faith in the inherent strength of our economy was an admission on the part of formal educators that in order to teach, one must first have an attentive audience.

ADVERTISING PEOPLE are paid for what they know, and they know how to attract attention. Either as paid consultants or as voluntary workers in the public service, the advertising men have used their skills to popularize economic notions and slogans which otherwise would not have reached large segments of the public.

These advertising-inspired programs of public education in economics have been so successful that there is a genuine danger of overcomplacency about the big job in education which still lies ahead. Selling ideas and concepts is not quite the same as selling cigarettes and soap.

I seem to remember a time when there was a concentrated promotional campaign to develop a respect for the function of savings. This was and always will be a worthy effort, for a society which does not save will not possess the wherewithal of its future growth. The fancy piggy-banks which attracted the attention of school children, the drives to "buy a piece of American industry," the appeals to purchase Government bonds and thereby beat inflation, etc., all these made an appreciable impression on the minds of young and old alike.

But then there came a change. The appeals to save lessened in intensity. A new stream of slogans and messages began to flood the country. The main theme of the new campaign was, and still is, that it is possible to *spend* our way out of a possible recession. The appeal now is not that we should hold on to our cash, but that we should spend it. We are exhorted to keep spending so that the wheels of industry can keep rolling. To maintain a high pace of consumer expenditure has been equated with the necessary conditions of a healthy economy. In effect, what we have been told is that we should not save—because saving is bad for the economy!

This emphasis on spending has, to a certain extent, contributed to the maintenance of public confidence in the future. However, unless the advertising profession is willing to admit that the impact of its messages is extremely short-lived, it must be ready to answer for the inconsistency between its slogans of a few years ago and those of more recent vintage.

Are we to save because saving is virtuous and necessary? Or are we to spend for the benefit of the economy? Of course, it is possible that there are times when we should save, and there are other times when we should not be afraid to spend. It is even possible to do both at the same time. But how, and when? This has not been explained by the promotion-minded educators. It was not an oversight; but merely the result of oversimplification.

To POPULARIZE slogans is one thing; to breed understanding, to educate, is another. It is important to realize this differentiation.

Most advertising men are probably aware of the fact that the arts of their profession are not suited to the task of *explaining* how the economy ticks. They have already performed a service by reducing complicated and abstract ideas to a line or two on a subway car card or a billboard. But having begun the job, they should be prepared to continue their campaign of public education to a logical conclusion—within the limitations of their tools. If the advertising men can turn their promotional talents to selling the public on the necessity of learning what the slogans are all about, then they will have made a major contribution to the educational processes of this country.

The advertisers have attracted the attention of the people. Now they can re-direct that attention toward the educators. I am certain that the advertising men themselves know that in economics, as in all things, only a little knowledge is a dangerous thing.—H.B.

Thus far, when investing union funds, labor leaders have shied away from corporate stocks and adhered to a "governments only" policy

SHOULD LABOR INVEST IN BUSINESS STOCK?

by A. H. Raskin

ARE WE ON OUR WAY to a kind of Marxism in reverse, in which American labor will become a financial mainstay of our capitalist industrial structure? The piling up of billions of dollars in union treasuries and welfare funds, plus industry's need for fresh sources of investment capital to pay for new plants and more efficient productive equipment, has given immediacy to a consideration of this possibility.

Scores of Wall Street banks and brokerage houses have set up special staffs to solicit investments in corporate securities from unions. Thus far there have been few sales.

The heads of the unions that control the biggest funds are almost universally among the most conservative of investors. They may speculate with their personal savings, but they are inclined to put their trust exclusively in Government bonds or Government-insured mortgages when it comes to the union's money. Even the bluest of blue-chip industrial bonds do not appeal to them in their capacity as custodians of union wealth; and they shy away from common stocks, whether they be issued by General Motors or a uranium mine in the Yukon.

Will this attitude persist? Or will it give way to a feeling that large-scale ownership of private securities by labor organizations will not only fatten their treasuries but contribute to greater job security and economic well-being for their members. And if we do move into some such form of communal capitalism, what happens to the traditional concepts of union function and management rights? Will the present dividing lines disappear, and will it be a good thing if they do? Only the sketchiest attempt at answers can be made in a single article, but certainly the subject is both challenging enough and perplexing enough to warrant a beginning.

A good jumping-off point is an appraisal of the basic labor attitude toward our free-enterprise economy. That is easy: labor is for it. Unlike the labor movements of other countries, which tend to be Socialist where they are not Communist, American unions are wedded to the capitalist system. They want it to continue, and they want it to prosper —because they feel our system offers the best economic environment for a general lifting of living standards and the best social and economic environment for the advancement of human dignity.

THE reluctance of unions to invest in corporate securities is not an expression of hostility toward our free-enterprise society but a reflection of their own deep-rooted conservatism, economic as well as political. Unions allocate all their money to Government bonds not because they believe that the Government should own everything but because they feel that Government securities are the safest form of investment. Their concept of responsibility to the union rank and file requires them to put safety ahead of any consideration of relative yield.

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David Dubinsky, whose International Ladies Garment Workers Union has reserves of $175 million in its welfare, pension and general funds, sums up his attitude this way:

"We were not elected as bankers. If we do a good job of investing our money and report to the members that, through our expert management, their funds grew much faster than they would in Government bonds, no one will applaud us. But if through faulty selection of investment risks on our part, or a general economic collapse totally outside our control, we have to tell the members we lost their money, then they will want to hang us—and they will be right.

"That is why we stick to securities backed up by the full faith and credit of the Government. If they become worthless, the whole country will have gone to smash, and there is no way of insuring against that for a union or anyone else."

The garment union's ban on speculation applies to state and municipal bonds, as well as industrials. The head of one of its biggest retirement funds in New York decided several years ago that it would be wise to interpret his authority to buy "Government" bonds as something broader than mere investment in securities. He canvassed the bond mar-

ket and found he could get a return of 3½ to 4 percent on municipals, as against a yield of 2⅛ or 2¼ on Federal issues.

He salted away about $15 million of the $40 million in his custody into an assortment of municipals. He boasted that the fund would make a "profit" of at least $200,000 a year on his coup. Unfortunately, the 1949-50 recession came along. The market value of the municipals fell sharply, and even though there was no likelihood of default on the bonds and no necessity to dispose of them in a forced sale, the union high command decided to fire the fund administrator and reinvest all the money in Federal securities.

However, there has been in the last two or three years a substantial indication that many union leaders are itching to find a way to get into investments that will combine a high degree of safety with a higher return than Government bonds provide. The first major departure from strict adherence to the Federal bond line has been in the direction of investments in Government-insured savings and loan associations and Government-guaranteed FHA or Veterans Administration mortgages.

One of the most sizable investors in such securities is the International Brotherhood of Electrical Workers, which has about $45 million now placed in FHA and VA mortgages. This represents three-quarters of the union's entire reserve for pensions and life insurance benefits. The union takes in $900,000 a month in contributions to the fund, and it feels it is essential, in terms of its future obligations, to get a mortgage return of 3¾ to 4¼ per cent. By 1985, when the union's pension rolls will reach a peak, its officials hope to have a reserve of $200 million.

UNIONISTS who put their money in Government-backed mortgages contend that they are sacrificing no safety in moving away from the Government's own bonds. Indeed, the electrical union has been so confident of this that it has borrowed $5 million from its locals, at an interest of 2 percent, and invested it in FHA and VA mortgages at twice that rate. This provides a "take" of $100,000 a year for the parent organization.

Where the Government insures the whole mortgage, the argument that such investments are less safe than Federal bonds appears to have little validity. Many of the VA mortgages, however, cover only part of the total indebtedness on a house or plot, and union officials concede there might be losses if a decline in real estate prices sets in.

But the more fundamental question is whether unions will abandon the Government as the touchstone of security and start making sizable investments in corporate stocks and bonds.

In the days of "permanent prosperity" before 1929, when William Green, president of the AFL, was a radio barker for a big investment firm, a number of local and international unions made industrial investments.

Typical was the Chicago Milk Wagon Drivers Union. It had part of its treasury in a state bank, paying a higher interest rate than banks affiliated with the Federal Reserve System, and the rest in Insull Utility stock. The state bank went broke, the first Chicago bank to close in the "crash," and soon after the Insull empire went down the drain. The local found most of its money gone at a time when demands for help from its jobless members were reaching astronomic heights.

THE turnover in union leadership is so low that most of the men running big unions today still have vivid memories of what happened to union holdings in real estate, bank stock and industrials in the crash of twenty-five years ago.

However, the rapid growth of welfare funds is causing many of them to wonder whether they need to be more conservative than insurance companies or bank trustees in diversifying their security portfolios.

One of the most venturesome of union chiefs in this respect is Dave Beck, president of the country's largest union, the International Brotherhood of Teamsters. When he took over as head of the Teamsters Union two years ago, Dave Beck was distressed to find that his predecessor had about $8 million of the $30 million in the organization's general accounts deposited in checking accounts, drawing no return of any kind. Beck shopped around for Government-guaranteed mortgage bonds and was able to purchase them at such an advantageous price that the union has been getting a return of about 5 percent on these holdings.

But Beck was not content with that kind of investment. He saw no reason why the union should not buy some corporate securities as well. Last July he and the union's finance committee were empowered by the general executive board to make any investments they considered safe that would give the union a "fair interest return."

Acting on this authorization, Beck bought $235,000 in Pacific Finance Corporation debentures and quickly sold the securities at a profit of $15,000. At about the

same time, he made a $1 million loan to the Freuhauf Trailer Corporation at 4 percent interest. One of the few other unions that is doing something along this line is the National Brotherhood of Operative Potters, a comparatively small AFL organization, with only 25,000 members. It has more than three-quarters of its funds in common stock, but other unionists say its officers devote so much of their energy to "playing the stock market" that the union has slipped back in membership while other unions are encroaching on its field.

It is doubtful whether as much as 1 percent of all union money is now invested in industrials. While it is likely that this figure will rise slowly in the next few years, there is little prospect of a stampede of welfare or treasury funds into common stocks.

Emissaries for one important New York brokerage house got an inkling of this recently when they sought to interest William F. Schnitzler, secretary-treasurer of the AFL, in a drive to get unions to invest in a wide variety of industrial securities. The brokers emphasized the idea that union investments in industry would create a partnership spirit that would stimulate productivity, improve wage standards and make strikes a thing of the past. For instance, they said that if a union or a pool of unions controlled 10 percent of a company's stock, it could insist on a representative on the board of directors and directly influence corporate policy on issues affecting employment.

SCHNITZLER saw no merit to this argument. If the AFL or one of its affiliates had a big block of stock, the company's workers would be likely to hold out for greater benefits than the general pattern of the industry warranted, and the danger of a tug-of-war in the board of directors and a consequent strike would be increased.

Unions are even more fearful of the consequences if they purchase a majority interest in a company. This is particularly true if the company is in their own industry. For one thing, they feel that the risk element is particularly acute when the union puts most of its funds in those companies on which union members depend for their livelihood and the union for its welfare funds and dues income.

If the industry were to go downhill, the union would see its holdings crumble just as its members became unemployed and calls for union aid reached their zenith. And while their reserves were melting away and calls for help were going up, current income would be tumbling. Such an arrangement could hardly be

classified as prudent planning.

But an even more fundamental consideration deters unions from buying control of the plants with which they negotiate contracts. It is a recognition that the whole concept of collective bargaining and the relationship between labor and management would be turned upside down if the union sat on both sides of the bargaining table, negotiating with itself.

Already unions are taking the view that continuity and volume of employment depends on the efficiency of management, the methods of distribution, the development of new markets and other things that have always been considered the prerogative of management. As stockholders, unions would feel that such subjects should be brought within the bargaining orbit. This is a prospect that repels many union leaders almost as much as it does most industrialists.

Would the result be any different if union members, as individuals, became heavy (aggregate) investors in the companies in which they worked? It might set up a state of schizophrenia in which the worker would have to decide whether a wage increase would help him more (as a wage earner) than it would hurt him (as a dividend-collector). A similar conflict would develop when it came to voting a strike.

One ambitious Wall Street house proposed something that would give unionists a big stake in industry without tying them to any particular company. It asked the AFL to take the lead in getting its 10,200,000 members to join an open-end investment trust, into which each member would put $1 a week. The trust would buy a balanced portfolio and administer it on the same basis as any mutual fund. The AFL spurned the proposal. CIO unions have given a similarly cool reception to ideas of a kindred nature.

Many unions purchase a share or two of stock in the principal companies with which they deal for the purpose of receiving all corporate reports and also of allowing a union representative to sit in on the annual meeting of stockholders. The day when unions will cross more actively into plant ownership and demand a larger voice in plant administration is not yet at hand.

But the desire of union leaders to demonstrate their resourcefulness in putting their millions to work, the need of industry for new sources of capital and the missionary work being done on both sides by the "middlemen" of Wall Street makes it virtually certain that important changes in the present union policy of "governments only" will come in a very few years. ■

Capital formation in underdeveloped areas begins with a simple hoe in some places; in others, manpower from the overpopulated land must be put to more productive tasks

'Send Me A Hoe!'

by Harold S. Sloan

"SEND ME A HOE." This request, it is said, was wired to headquarters by a cotton expert of the United States Food and Agricultural Organization upon his arrival in Afghanistan. The implement then in use in that country, it seems, was a short-handled affair known as a "back-breaker." With nothing more than hoes replacing "backbreakers," scythes replacing sickles and improved agricultural techniques replacing outmoded ancient methods, the productivity of Afghanistan's agriculture can be stepped up materially. The same amount of food can be produced with less labor, and the manpower thus saved can be released for the creation of capital.

Immediate capital might well take the form of an adequate supply of simple modern tools produced from the ample coal and iron resources of the country—a modest beginning to be sure, but a step toward capital formation, industrialization, and a higher level of living for all.

Stretching along the tropical and subtropical belts from Mexico to the Philippines are over 22 million square miles of underdeveloped territory inhabited by about one billion people—over one third of the population of the entire world. These lands are underdeveloped for many reasons: psychological, social and political, as well as economic. Among the economic reasons, the lack of capital ranks high. Unaided by machines or even adequate tools, human labor gets things done slowly. Productivity is low, and because productivity is low, per capita yearly incomes are small, averag-

ing not more than $135 in 1949. Capital cannot be induced into any mass-production industry because there is no market—there are not enough people to buy.

Suppose, for example, that a modern garment factory were established in one of these underdeveloped countries. The workers in that factory would probably enjoy high productivity, and, in consequence might receive good wages. No doubt they could buy a few of the garments produced, but there would not be a sufficient number of other purchasers to make the factory pay.

Of course, if a large number of workers were employed in many well-equipped factories producing a variety of commodities, they could buy one another's products. But that would be industrialization, at present nothing more than a dim goal. Indeed that goal may sometime be realized, but for the moment there are the unavoidable facts of poverty and lack of capital; hence low productivity; low productivity, hence low income; low income, hence insufficient capital; etc.

The capital necessary to increase productivity in these underdeveloped areas, sufficient to add an annual 2 percent to the per capita income, has been estimated at approximately $19 billion a year.

Of this amount, the underdeveloped countries themselves can contribute, annually, net domestic savings of something over $5 billion leaving a difference of approximately $14 billion needed from foreign sources. Of course, as national incomes advance and domestic savings increase, this difference can be reduced.

But where is this foreign capital to be found? The Point Four Program, which has contributed so much toward economic development, at first attempted to interest United States private capital, but the results were disappointing.

A major change has occurred in the pattern of United States foreign investments since World War I. In the 1920s portfolio investments—that is, subscriptions to foreign bonds—were the main channel for capital outflow. But defaults during the depression years narrowed that channel to negligible proportions, and what outflow remains goes predominantly to countries already highly industrialized, or else to international institutions. Direct investments, investments made principally by large corporations seeking to expand their sources of supply or marketing facilities, though substantial during the 1920s, have continued only in

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moderate volume during the intervening years. A large proportion of these investments go to underdeveloped countries, but the advantage accruing to those countries in such investments is limited.

Direct investments in underdeveloped countries are predominantly in the extractive and plantation industries, petroleum receiving the lion's share. They are export industries catering to a world market. Their interest in the local market is quite incidental and could not be expected to be otherwise because of the lack of purchasing power, already explained.

This is not to say, however, that direct investments are not of some help. Many United States business concerns have aided in the spread of technological knowledge and the development of specialized skills among the local inhabitants; they create a demand for labor, sometimes pay large royalties, and have, on occasion, built transportation or water and power facilities—all of no small benefit to the local economy. Perhaps their greatest aid is in the increased imports that their exports make possible. Indeed, if the volume of direct investments in underdeveloped areas showed prospects of growth, the import possibilities might provide a fruitful source of new capital formation, even though consumption imports would have to be curtailed.

But the period of great population and industrial expansion of the Western World, calling for ever more foodstuffs and raw materials, is not likely soon to be repeated. All in all, there seems to be little hope for immediate substantial capital forthcoming from private United States sources in either portfolio or direct investments.

Nor is it likely that international agencies or other nations can do more than the United States. The International Bank for Reconstruction and Development has been granting loans annually, averaging at least $200 million. Of the total loans granted up to October 31, 1953, about half have gone to Latin America, Africa, Asia and the Middle East. The Export-Import Bank has made large loans for economic development, particularly in Haiti and Afghanistan. From $250 million to $300 million annually have been put into the Point Four and other development programs of the United States, while United Nations technical and assistance grants have amounted to somewhat over $35 million a year. But the total capital inflow, instead of being $14 billion is more like $1 billion or $1.5 billion, at the most.

Additional capital must be found somewhere.

In part answer to this problem, a good deal is being said today about the possibility of gainfully utilizing those who are in a state of disguised unemployment. Disguised unemployment is a result of overpopulation on the land. Excess workers can be withdrawn from agriculture with no resulting decrease in production. The productivity of this labor force, in other words, is zero. Some say it is less than zero, because too many workers just get in one another's way. Here, then, in densely populated areas where land is scarce and labor plentiful, is a potential source of additional savings *involving no curtailment in consumption.*

Disguised unemployment probably involves at least 20 to 25 percent of all agricultural workers in parts of India, Pakistan, the Philippines and Indonesia. As far back as 1937 it was estimated at 50 percent in Egypt. Remove these workers from agriculture then, and put them in capital-forming enterprises. There they can consume as much as before (as can the workers left on the farms) but in addition they can become productive.

There is a vast amount of so-called "overhead" capital formation necessary in underdeveloped countries. This includes roads, school buildings, and water supply, irrigation and drainage projects—the sort of basic facilities that pioneer settlers created for themselves during the westward expansion of the United States in the 19th century. Such capital is a prerequisite to more complex economic development. Then, too, at the start anyway, simple equipment will suffice for this sort of work. Picks and shovels, crowbars, buckets and carts are not the most efficient kind of tools, to be sure, but the workers who will use them were 100 percent unproductive before in any case. Therefore, some gain is assured. As the newly formed capital steps up productivity and additional savings are made, more efficient tools can be procured.

THERE ARE four densely populated, underdeveloped countries for which figures are available: Egypt, India, the Philippines and Thailand. The total number of agricultural workers in these four countries is said to be a little over 84 million. Accepting the estimate of 25 percent as the proportion of those workers who can be removed from the land with no decrease in production, disguised unemployment in these countries amounts to around 21 million workers. The per capita annual national incomes range from $36 to $100. Multiplying the per capita

income of each country by the number of disguised unemployed in each country, we come up with a total figure of slightly over $1 billion. What this figure means is that the disguised unemployed workers in these four countries are receiving and consuming goods equivalent to a money value of about $1 billion per year. Yet they create nothing. Of course, the shift to capital-creating activities in itself does not change anything, for the workers will still receive and consume as before. But the value of whatever they produce in the new employment adds that much to the national wealth.

The situation is similar to that which would exist if an underdeveloped country received a foreign grant of $1 billion, with the stipulation that the money be spent only for labor performed by workers who formerly worked on the land. The difference is that, instead of being maintained by the foreign grant, the workers are being maintained by those who remain in agriculture and who, presumably, do not consume more than they did formerly. If this calculation included all of the other densely populated, underdeveloped countries, the amounts involved would certainly be larger. In any case, $1 billion and more is a sizable contribution. It would about double what is now being received from foreign sources, and, as new capital began to make itself felt in increased productivity, its effect would be cumulative.

FOR LESS densely populated countries, where no disguised unemployment exists, the procedure is essentially the same, except that labor can be released from the land only to the extent that better tools and improved methods step up the productivity in agriculture. But in most places the tools in use are so primitive, and the methods followed so crude, that increasing productivity on the farms is no problem. The story of the hoe in Afghanistan is a case in point.

To realize these potential, additional savings, then, capital formation is the first step in densely populated countries; while increased productivity in agriculture is the first step in less densely populated regions.

If capital formation through siphoning off of disguised unemployment seems fantastic, the early industrial history of Japan should lend it credence. Japan's industrial history began in earnest with the abolishment of the feudal system in 1871. Its progress, although not spectacular until after World War I, was at least steady and consistent up to that time. It is during this early period that similarities to the

current disguised-unemployment possibilities can be seen.

Japan was distinctly an agricultural country, using the most primitive methods of farming. Despite the great technological advance that subsequently occurred, little was done to modernize farming. Total population increased by over 21 million between 1872 and 1920. As it became more and more difficult to eke out an existence from the land, urban industrial centers absorbed most of the population increase, making unnecessary any deliberate transfer of workers from agriculture to industry. Technical know-how was sought aggressively from the West, but not the West's consumption habits. These remained at a low level, enforced by high land taxes. As a result, capital formation was made possible through domestic savings, which, at times, were as high as 15 percent of the national income. Foreign capital was negligible during this early period.

The development thus outlined seems to suggest a certain amount of deliberate planning, for it was a well-balanced development, the government sometimes helping to maintain this balance by assuming the risks of new industries and later turning them over to private ownership. Thus are mirrored the essentials of capital formation through disguised unemployment: use of surplus agricultural labor in productive employment, control over consumption, and a strong government.

Every underdeveloped nation cannot become a wealthy nation. Natural resources are unequally divided, and no amount of capital can equalize the differences. On the other hand, probably no nation is applying capital, labor and technology to its natural resources in such amounts and proportions as to produce the maximum national income. But certainly those with available capital are doing so more successfully than others without such benefit.

The penalty for creating capital is usually decreased consumption. But in underdeveloped countries that penalty can be eased somewhat. There are hidden savings in disguised unemployment and increased agricultural productivity that can be used for capital formation.

Certainly these hidden savings offer no royal road to riches, but if utilized they can help. They can increase capital formation to some extent. And as capital increases productivity, and productivity increases incomes, savings can be more easily accumulated. Then more capital becomes available, and again productivity is stepped up. Indeed, sizable accomplishments can result from just such modest beginnings. ■

The cold war has entered a new stage, wherein the U. S. must provide short-term military assistance to some and long-range economic development programs for others

Foreign Aid Reviewed

by Elliott Haynes

In 1821, Secretary of State and President-to-be John Quincy Adams looked across the ocean and said, "America is the well-wisher to the freedom and independence of all. She is the champion and vindicator only of her own."

If Adams should reappear on the scene of his labors, he would soon come to realize that the United States has become the champion of freedom and indepence of many countries in these modern times. Although a unanimity of opinion does not prevail in the United States as to how much we should do and how we should do it, we have definitely committed ourselves to a policy of helping other countries recover from war damage, to raise their living standards and to resist possible Red aggression.

This policy of assistance, while remaining fixed as to general aims, has been undergoing changes. Since World War II, we have been extending heavy annual outlays of economic, technical and military aid. Very recently, with the latest foreign aid bill, the nation took a decisively new tack in this spending.

The money voted for our foreign aid program for fiscal 1955, about $2.8 billion, is roughly half the amount voted two years ago. Somewhat more than $2.4 billion of this appropriation will be spent to bolster the *military* power of the non-Communist world. The remaining several hundred millions will be devoted to economic development and technical assistance. For the first time, the major slice of this latter type of aid will be dealt to the Far Eastern and Pacific areas.

What happens next is a matter of great conjecture. But one thing is certain: our concepts of how much and in what form we should extend assistance to nations abroad will constantly change.

United States foreign aid did not become an implement for safeguarding our national security until World War I. Then, sud-

denly, we woke up to the double realization that the safety of the democracies in Europe was vital to our own, and that they might go under without our active support. As a consequence, the United States Government extended billions in credit to her allies. Though regarded as commercial, interest-bearing obligations subject to repayment, the money we sent abroad may be classified, in the perspective of today, as "aid."

Similarly, American aid during World War II was staggering in proportions. Assistance between 1940 and 1945 totaled $49.1 billion. This was followed by a postwar program of indirect aid through the United Nations, for whose many economic, technical and financial agencies the United States Government provided most of the money and much of the manpower.

With the Marshall Plan in 1947, direct United States aid was undertaken on a truly ambitious scale. The urgency for such a vast program of assistance arose from the danger of losing Western Europe to communism. Eastern Europe had been overrun with terrifying rapidity. Although the then Secretary of State, James F. Byrnes, drew a line across the Continent and said "this far and no farther," there was little hope that Europe could survive the threat of communism, both external and internal, unless its economy were radically altered for the better.

The Marshall Plan was no program of simple military aid, such as was announced a month earlier by President Truman to aid Greece and Turkey. It attempted nothing less than the integration of the European economy and the infusion of a modern spirit of democratic capitalism.

ON THE first score, the program has been rather successful. Despite the rejection by the French Parliament of EDC, economic unity is far more of a reality than it was in 1948. Through the Organization for European Economic Cooperation, intra-European trade and payments have been drastically liberalized. The European Coal and Steel Community, the first step in total integration, is progressively removing trade barriers on these basic commodities. The three-sided customs union of Benelux (Belgium, Netherlands, Luxemburg), recently has completed integration by removing the barriers to immigration. A conference projecting a Scandinavian customs union has just been concluded in Oslo.

On the other hand, the modernization of the European business-

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man has not made much progress. He is, however, showing surprising resiliency in his ability to capture world markets; and it can be argued that as the barriers to trade go down at home, he will be forced by competition into a more progressive role.

As for over-all results, production in the Marshall Plan countries at the end of 1951 was some 64 percent above the 1947 level. There is, therefore, some basis to the belief that our investment in the Plan of an annual average of 2 percent of our total production has paid dividends. Without the program, in fact, the North Atlantic Treaty Organization (NATO) would not have been possible.

By 1950, events were making it clear that economic and political stability could not be achieved for a long time to come, and the immediate need was to secure military stability. The United States, therefore, embarked on a program of mutual defense assistance, the core of which was NATO.

Military aid in 1950 totaled $526 million; economic aid $3.484 billion. In 1953, the shift in emphasis was apparent—with $4.281 billion going for military assistance and $1.813 billion for economic. Today, the question arises as to how much emphasis we should continue to put on military aid *vis-a-vis* economic aid. For the next fiscal year, at least, present appropriations call for just $400 million for nonmilitary assistance.

But the state of the world is constantly changing. The hydrogen bomb seems to have diminished the immediate likelihood of an all-out war. The Communists generally believe that history and *time* are on their side. President Eisenhower has spoken of forty years of cold war. If this outlook can be accepted, there is need of fostering and abetting economic development abroad as a long-term policy.

It is necessary to keep three points in mind. First, the peoples throughout the world classed as "underprivileged" are enormously sensitive and also suspicious of American intentions. Aid given to India through the Indo-American Economic Development Fund has come under sharp attack in the Indian Parliament, and Prime Minister Nehru even had to explain the acceptance of United

States aid on one occasion on the ground that refusal would be an insult to the United States! Even in Europe, grants for assistance have not been psychologically effective, as present hostility toward America and the still alarming degree of "neutralism" prove.

Second, underdeveloped countries are for the most part too primitive to absorb billions in financial aid from the United States Government—in the way that the countries of Western Europe have been able to do. Industry is in its beginning stages at best, and government is largely corrupt, inefficient and lacking in trained civil servants.

Third, the frustration of the underprivileged peoples cannot be assuaged by mere gifts. To satisfy themselves, they must work out their own destinies, on their own initiative and with their own labor and skill.

These considerations, weighed along with the reduction in the amount of United States funds appropriated for aid, lead to the conclusion that a great deal of the effort to relieve the economic disparities of the world must be channeled through normal commercial and industrial activity.

WHETHER United States businessmen will rise to the need remains to be seen. There are some hopeful signs. The underdeveloped countries themselves are becoming aware of the benefits of private United States capital. A host of new and liberal investment laws have sprung up throughout the world. The United States Government is increasingly finding investment opportunities and spurring business to take advantage of them by providing guarantees against expropriation, currency inconvertibility, etc.

American businessmen are growing bolder, and we might say wiser. As one executive put it, "They told me not to invest in India because the Reds might take over the country, and I told them the Reds darn well would take over the country if we didn't invest in it."

Even if American business should come forward on the requisite scale, however, important considerations beyond the allocation of funds remain to the United States Government.

Washington must continue to assist Europe to find an enduring solution to its international trade problem. (The dollar gap, though obscured, still exists.) This means that American tariffs must be adjusted to enable Europe to earn more dollars. The problem was sidestepped last year and this; next year will tell the tale. Business also has a responsibility in this issue and is deeply divided on it. Also, Washington might pro-

vide funds to bolster European treasuries when individual countries make their currencies freely convertible. Without such insurance, they will hesitate to take the step toward unfettered multilateral trade.

The United States Government has a similar task with regard to Latin America. The countries south of the Rio Grande will continue to ask for some form of international cooperation to stabilize the markets and prices of their export commodities. These commodities furnish the bulk of their foreign exchange earnings, and violent price fluctuations hamper economic development.

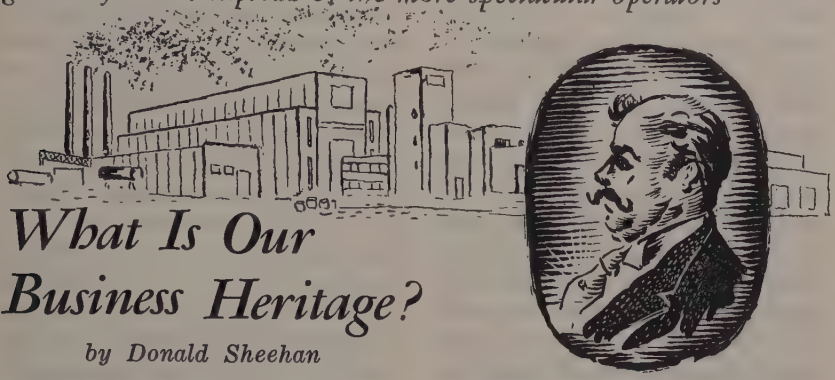
In Asia, our Government faces its greatest challenge. Here the suffering is greatest and communism the most menacing. South Korea is an exceptional case that requires immediate and large-scale assistance on the old order. Such aid is already forthcoming. Japan, whose traditional Chinese markets have been cut off, can be assisted in earning more money through the lowering of United States and British tariffs and import quotas. In addition, the country will probably require extraordinary dollar aid.

The world economic challenge is not so much a problem of *what* to do as it is one of *why* to do it. Do we want to help other peoples? Do we want to share in progress because it *is* progress? It would be foolish to expect that Americans as a whole can feel and act as one in this regard. It would be fatuous to hope that factors of immediate self-need and self-interest will not continually clutter the way between an expression of helpful intent and the effectuation of it. But it is not unreasonable to assume that if there is substantial good will arising from the great body of the American people (who have been admired at times for their open-handedness in this tight-fisted world), some of it is bound to filter through.

Probably we shall always be handicapped by prevailing doubts about our motives in extending unilateral aid. That is one reason why technical assistance through the United Nations, wherever practicable, is undoubtedly preferable to direct United States technical assistance.

The recently announced creation of an international atomic pool should indicate to peoples everywhere that Americans are interested in helping them to a better life. It is an example of the type of action Washington can take—multilateral and without any immediate, tangible benefits to America—that ultimately will do most to advance the welfare, spiritual as well as material, of our own country. ■

The history of the book publishing industry in the U. S. suggests that business practices during the Gilded Age were not as bad generally as the exploits of the more spectacular operators



What Is Our Business Heritage?

by Donald Sheehan

AMERICA'S PIONEERS are among our favorite national heroes. They are the symbols of progress, the paragons of individual resourcefulness and sturdy courage. On the other hand, the founders of American industry, many of whom had similar qualities and made important contributions to American progress, are often looked upon as individuals to be excused rather than admired.

Like the frontiersmen, our business pioneers were inventive; but we tend to regard their inventiveness as trickery. They were individualistic; but they are usually thought of as being selfish. They performed a national service by helping to increase tenfold our industrial capacity and to raise the standard of living of millions; yet they are remembered chiefly for their huge personal fortunes, their ugly mansions and palatial yachts. We are brought up to look upon Daniel Boone as a superman and disdainfully to put the early industrialists in the class of feudal lords.

These caricatures appear in scholarly writings as well as in the popular mind. Ever since the muckrakers at the turn of the century concentrated on displaying to America the seamy side of its economic adolescence, it has been difficult for the positive side of the picture to emerge. Only recently has a school of historians emerged to pen the contributions of these early business leaders.

A scholarly war has thus begun. Its favorite battleground is called the Gilded Age—the tumultuous

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years between the Civil War and the outbreak of fighting in 1914. To some this is the heroic age of American enterprise; to others, the age of the robber barons.

But whatever the label, these were the years when modern American business had its beginnings. This was the period when corporate management and mass production techniques were introduced on a large scale. The selling of stocks spread ownership. A gigantic railroad network traversed the nation within a few decades and opened up a national market. Easterners began eating Texas meat and Wisconsin flour, and in return sent back factory-produced clothing and typewriters.

BUT WHAT is the relationship between the view that the Gilded Age was the founding period of America's modern economy, and the dispute over the relative significance of the economic leaders of the time? To say the least, there seems to be a contradiction when we hail the Gilded Age as a productive era and yet describe the men who made the era as robber barons.

Indeed, there are few commentators, even among those friendly to the old-time industrialists, who do not draw a sharp line of distinction between *what* business did, and *how* it did it.

The extent to which the distinction between means and ends is justified is as important as it is difficult to determine. Actually, we have a limited knowledge of the American business past. The cast of characters about whom we have been told the most in this historical drama—which some have written as a comedy, others as a tragedy and stili others as an epic—seldom includes more than the royal figures of American business.

John D. Rockefeller, irrespective of whether he was a saint or a villain (or perhaps neither), is a unique product of his time. Even when he is joined by the Vanderbilts, the Morgans and the Carnegies, the stage does not present a fair sampling of business leadership, let alone a panorama of American business. These were the spectacular figures, not the typical ones.

But what of the others—the anonymous businessmen whose achievements and sins never made headlines, the thousands of smaller businesses overshadowed by the few giant corporations which emerged after the Civil War? Very little is known about them. And the fault does not lie only with historians who search for the melodramatic. Newspaper reporters and Congressional committees of the day also passed them by, and their company records have largely disappeared.

There is at least one industry, however, which has retained enough of its files to permit a reconstruction of its own practices during the Gilded Age. This is the book publishing industry, and it offers an almost unique instance of continuity in management. Few other types of enterprise show so clearly established a line of descent from the 19th century to the present, with third and fourth generations of family control very much in evidence. A large proportion of today's mass-distributed books are published by houses founded before President Grant left office in 1877—Harper & Brothers, J. B. Lippincott Co., Houghton Mifflin Co., Henry Holt & Co., Inc., Charles Scribners' Sons, Dodd, Mead & Co., and many others—a substantial number antedating even the Civil War.

Whether the book business was more accurately representative of the period than were the operations of the Jay Goulds and Jim Fisks may be questioned and should be considered systematically. Certainly it is true that these early publishers did not consider their business as typical or themselves typical businessmen.

Walter Page, who founded one of the great houses, then left it to become American ambassador to Great Britain during World War I, looked upon publishing as a profession, closely akin to teaching and preaching. Charles Scribner thought it more accurately described as a career.

Yet, book publishing reflected over-all business practices in a number of ways. Price-cutting, for example, was constant and reached a suicidal level in the same years that the railroads were inviting financial disaster by slashing rates below the safety margin. Publishers turned, as did the railroad barons, to cooperative remedies. Unlike the railroads, book-pricing arrangements achieved some measure of lasting success before World War I.

BOOK PUBLISHING, like other businesses, developed marketing devices designed to keep peace within an expanding, urbanized industrial America. The gigantic auctions which capped the wholesale structure in the pre-Civil War years were replaced by squads of salesmen who mounted the rails to canvass the ever-increasing, ever-tottering retail book stores. Book wholesalers like Baker & Taylor and the gigantic American News Co. reflected growing specialization in the mounting wave of middlemen.

But while it is comparatively easy to trace the ways in which book publishers accepted or rejected general practices, their ethics are not easy to categorize.

Much of the modern controversy over business in the Gilded Age deals with the question of ethics.

The majority view, held even by industry's defenders, pictures the period as a time of rampant individualism, a primeval beginning when unrestrained and ruthless competition was the general order. The doctrines of social Darwinism, the law of the survival of the fittest, held sway in the business world as in the jungle. The behavior of the notorious Jim Fisk, who entertained a gullible President Grant and fleeced the Erie Railroad, is considered representative. When Fisk fled from New York, landing safely in New Jersey with a satchel of stolen money, he exclaimed, "Nothing is lost but honor."

Yet the leading publishers of these same years were honorable men. The manner in which they conducted their businesses and dealt with one another bears scant resemblance to jungle law or even unrestrained individualism. Their attitude towards authors of other houses is an example.

Author stealing and competitive bidding for writers who were associated with rivals was severely frowned upon both in theory and practice. Men like Charles Scribner and Frank Dodd sought clearance from the previous publisher of dissatisfied and highly desirable authors who came to them with manuscripts in hand looking for contracts. "If the matter is to be made in any sense one of competition among publishers," wrote Henry Holt to an author's agent, "pray spare yourself the trouble of communicating with us any further as we do not enter into competition."

AN EVEN sterner test of ethical standards rose out of the absence of an international copyright law. The works of foreign authors, especially of the leading English writers who provided America's best sellers during the period, could be reprinted legally without payment of any royalty or commission fees. Some printers did exactly that, and history, as well as the despoiled authors, labeled them "pirates." What seems astonishing is not that this was done, but that there were so many publishers who *did not* do it. English authors such as Dickens, Scott and Thackeray received honoraria of tens of thousands of dollars from American companies which were under absolutely no legal obligation to pay a penny for producing American editions of their works. There were two explanations for this.

There were really two categories of publishers—pirates, and those who opposed them. In the latter group, upholding ethical

principles which would be rigorous in any era, were all the leading publishers. Crime did not pay. The pirates disappeared from the scene, leaving the hard core of ethical houses which still do business today.

Such evidence (and much more is available for inspection) presents a curious problem of evaluation when it is placed against current conceptions of business morality in the last quarter of the 19th century. It seems too easy to conclude simply that publishers were a breed apart. After all, they were businessmen, not philanthropists, and their correspondence reveals a constant concern with profits and money-making.

A few tentative conclusions and speculations appear justified. First, it should be remembered that book publishing companies, despite the personal codes of their managers, encountered some of the same basic difficulties seen in businesses run by less reputable men. As has been observed, price cutting was widespread among publishers. Since this practice cannot be accounted for by the state of business ethics, it must be considered an economic problem. It seems reasonable that this observation, true of publishing, may have an application in other industries. Such a conclusion is at odds with much that has been written about the post-Civil War economy by authors who approach economic problems by examining the motives and morals of individual businessmen.

Ida May Tarbell, in her *History of the Standard Oil Company*, condemned the management because it "didn't play fair"—which is essentially an ethical rather than an economic judgment. She also suggests the thesis, still shared by some today, that the most ruthless were also the most successful. The book industry suggests quite the opposite.

Then just what was the typical business morality of the period? Who is the more representative figure, Charles Scribner or Jim Fisk? Many historians continue to feel that the weight of evidence lies with the Fisks. Yet, there is also material, of which the history of the book publishing industry is a part, which suggests not only that the Gilded Age had its honorable men, but also that the ethics of the Age as a whole have been somewhat misrepresented.

Not until many more industries have been examined, not until the histories of hundreds of individual companies have been placed side by side, can anyone reach firm conclusions. Until that time, it would seem unwise to equate the worst with the average, the largest with the typical and the most publicized with the least known. ■

We shall have to invest $200 billion during the next five years to acquire the capital goods necessary for the next round of great economic expansion

Future Growth Has A Price Tag

WHETHER it be toothbrushes or fountain pens, refrigerators or automobiles, most of us are ready at all times to get rid of what we have for something better, stronger and faster—provided we can swing the deal. This American tendency carries over into industry, to the ripping-out of the old and the bolting-in of the new tools and equipment that make the things we use in everyday life.

As a nation we are chided, and sometimes chide ourselves, for undue preoccupation with machinery. We exploit and junk our industrial machinery with what connoisseurs of craftmanship must sometimes consider hard-boiled materialism, or even vandalism. But we do it enthusiastically, and without a trait of sentimental attachment for the equipment being replaced.

It follows that the biggest and most important form of investment by American business is for industrial tools and equipment, or capital goods. This practice is bound to have a dominant influence on our national allocation of money for growth. However, there is a difference between what is characteristic for a period of decades and what is being done at a given time, or what seems desirable at a given time.

With the present trend of our economy somewhat uncertain (and the demands upon it quite certain) the role of industrial machinery and the funds that go into it come up for searching consideration. There is reason for some concern.

We Too Can Prosper, a book reviewed in the January 1954 issue of CHALLENGE, has a few trenchant observations on the subject. Author Graham Hutton, discussing American practices that could be applied with profit to the British economy, tells how we supply "more power to the elbow."

There is nothing too lowly for machinery in America, he says. What is more, it is used intensively. "The intensive use of machinery and mechanical power in America is the means to the

end of high volume, low-cost production." And the British industrialist-economist shows that the obvious corollary to this is a high rate of improvement, replacement and investment.

In America, Mr. Hutton points out, the question of whether to buy a new machine is decided not only by reference to past performance, but also to the potential of the new. Bent on maintaining an average of two to three percent advance in output per year, we emphasize not only more intensive use of equipment, but also quicker replacement and renewals.

"The cumulative and accelerating process . . . has now reached the stage at which, in many cases, such greatly improved items of American equipment are available so rapidly that all formulae indicate the profitability—i.e. higher productivity—of even more rapid scrapping and replacement. The American rule has almost become 'when in doubt, scrap!' "

Here, in the perspective of *We Too Can Prosper*, it becomes clear that our way with machinery has been a national asset ever since the time when we were too few and too shorthanded to utilize our space and resources with manual labor to the extent relied upon in Europe and Asia. With our hot and heavy use, replacement and expansion of industrial machinery, we have at once provided the base for and accelerated the progress of our economy as a whole.

Over the years then, we have hitched our material destinies successfully to advances in lift-trucks, hydraulic presses, locomotives and blast furnaces. But this is a generalization which must be qualified. We have progressed in this way, yes, but with jarring irregularity. We have tended to invest in new capital equipment in sporadic, great clangings of activity, and thus have propelled our economy with alternating bursts and slowdowns.

Since we are a relatively new nation, we are still fresh in the business of challenging the forces of nature through industrial technology. We seem to fall back every once in a while, almost as if our enterprise and effectiveness inevitably have had to give ground periodically to human shortsightedness, fatalism and even futility. We may wonder about such things as whether the much-lamented waste of depressions is really waste or a necessary goad for new periods of enterprise. But speculating along these lines tends to lead us away from fact and practical suggestions

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The editors of CHALLENGE have prepared this article to point out how much we shall have to invest for future growth and how such investment can help to maintain a steady and noncyclical pace of growth.

Fortunately, the subject of across-the-board economic fluctuations, tied to investments and capital goods, is beginning to yield to attempts at analysis by empirical investigators. One result of this development is that the inevitability of boom-and-bust cycles, with the necessity for drastic governmental intervention, is no longer conceded by everyone.

This new hope got into increased general circulation through publication of another book reviewed in CHALLENGE in the past year. This work is *The Regularization of Business Investment* (July 1954). A report by the National Bureau of Economic Research, it puts together the ideas of a pioneering group of leading executives and economists as to how investment in capital equipment might be spread out against the trend of, or without regard for, economic cycles.

THE MAN responsible for editing the report, Prof. Melvin G. de Chazeau, has come forward with his own provocative views on the subject. In outlining the new approach, he makes plain that our objective should not be solely stability in the narrow sense of the word:

"A continued adaptation of goods and services to shifts in consumer demand, the constant pressure for product and process innovation in pursuit of lower costs and greater consumer appeal, and the shifting of fortunes of localities, firms and industries in response to competitive pressure—these fluctuations are the pulse of our way of life and the source of our rising standard of living. . . . Economic stability in a dynamic economy is the stability of opportunity."

Prof. de Chazeau does not believe in the feasibility of organized group response because he thinks that might lead to the cartelization of markets. But he sees a broad field for action by individual firms. He bases this prospect on the underlying diversity of economic forces as revealed in studies of the behavior of individual firms and industries during periods of general business fluctuations. These studies show that there are some phases of economic activity and some business profits which reach a peak within every stage of the business cycle—during recovery, expansion, recession and depression. In other words, the degree of severity of a depression depends upon the number of businesses which hit a low point at the same time. What made the depression of the early 1930s so paralyzing was that almost every industry and business fell into the doldrums simultaneously. But

the recession of 1949 and the "readjustment" of 1954 were years of continuing strong activity for some business sectors—especially the construction industry.

Business investment remains today the key factor in cyclical change, de Chazeau believes. Decisions to add equipment and facilities usually lead to greater production and employment, besides increasing incomes that may stimulate still further additions to output. This new investment, he claims, is inherently more effective than added incomes in maintaining high employment. However, he goes on, the purchase of new equipment often depends upon anticipated sale of the products the equipment is supposed to turn out.

Accordingly, de Chazeau reasons, "were it possible for management to pursue the economic interests of the firm without regard to the fluctuations in the general level of business activity, the basic disparity of economic forces . . . should reinforce the randomness of economic effects and thereby contribute to economic stability. The firm might concentrate on its marketing and sales policies to stimulate consumer expenditures and enlarge its share of the market. The net effect of these policies on total employment and incomes . . .would depend upon whether they succeed in initiating the general increase in consumer expenditures."

De Chazeau stresses that he is not simply restating the efficacy of budgeting for sales promotion and advertising. He is talking about direct "noncyclical" policy, with capital outlays to be made for a period of years in the face of declining (or rising) business. "Sales, merchandising and price policies designed to counteract cyclical swings could contribute to the maintenance of consumer demand and expenditures."

Do TECHNOLOGICAL CHANGE and product improvement argue against the making of such noncyclical outlays? In de Chazeau's view, the risk of obsolescence is not closely associated with the timing of investment. "Protection can be gained only through the development of one's own research staff."

In essaying such a program as his, Prof. de Chazeau admits that a firm would have to take some cognizance of prevailing economic winds. Today, he continues, it would be able to act with confidence, based on the Government's responsibility for the maintenance of high employment (Employment Act of 1946) and its generally agreed-upon ability to prevent a deep, long-lasting slump with the fiscal and monetary means now at its command.

A current survey by Fortune finds that investment in capital equipment is due to rise. It sees the forces of national expansion and technological advancement carrying the market in capital goods between now and 1959 to a stupendous $200 billion. With capital goods playing "an economic role all out of proportion to their dollar volume," Fortune sees this outlay spurring an unprecedented general peacetime expansion.

Two factors lend credence to this prediction. The first is the abundance of liquid savings held both by consumers and business as a source of capital funds. The second is the incentive provided by the depreciation allowances in the new Federal tax code. This allowance makes it possible for businessmen to pay off in tax-free deductions from earnings about two-thirds of the cost of new equipment during the first half of the useful life of that equipment. It encourages businessmen to save, while adding to earning capacity with more production at lower costs.

FROM THESE factors, long-run optimism naturally springs. But, the more immediate prospects are disturbing.

A chart depicting the latest figures of expenditures for new plant and equipment would have a curve which slants downward, illustrating a trend which began in August 1953. A shrinking of outlays for the manufacturing sector would dominate the chart. The total business outlay this year is expected to drop 6 percent below that of 1953.

No one knows for certain (the data is not available) how much the recent and still projected investment for industrial machinery represents replacement of existing facilities, and how much represents expenditure for expansion. This uncertainty is part of the stage of transition we seem to be passing through, which some call stability, and others call stagnation. The prospects for 1955, on the tenuous basis of the last quarter '54 predictions, do not include a significant upturn.

Between the hopes of stepped-up investment in capital goods and what is actually happening today, there stretches a quagmire of doubt. It could be full of pits and quicksand. Will businessmen wait out the situation for a while, hoping for the uncertainties to dry up? Or will they put on hip boots and wade in, with their eyes fixed on all the benefits to be gained from getting sooner to the other side? With their new freedom of planning and movement, businessmen have a choice. The country will have to go along with them. ■

The stores are set for the hoped-for Christmas rush, and the results can make the difference between a good and a fair year

by Earl Dash

45 Shopping Days 'til...

THERE ARE forty-five shopping days between the first of November and Christmas Day, but the nation's retail merchants have long since been shoulder-deep in plans for their biggest drive of the year.

The first sign that the holiday season is under way will soon become apparent when the mailman delivers Christmas catalogues to shoppers on the mailing lists of stores throughout the country. Almost simultaneously, physical changes will begin to take place in the stores.

To the general public, the transition seems to take place almost all at once—all crowded around Thanksgiving Day, which is the traditional time for stores to open the holiday shopping season. On that day, stores such as Macy's, New York, J. L. Hudson Co., Detroit, L. Bamberger & Co., Newark, the State Street Merchants, Chicago, as well as individual stores and retail chambers of commerce in cities across the country hold their annual parades.

Actually, long before Thanksgiving Day many stores have embarked on the Christmas build-up. Catalogues are in the mail, the enlarged toy departments are in full swing and the upper floors are already showing Christmas decorations—all this by the first week in November.

The hectic promotional efforts of retail merchants are sometimes disdainfully ascribed to a purely selfish, profit-making motive. In the last analysis, this is probably

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Earl Dash, feature writer for Fairchild Publications, Inc., knows the plans and hopes of retailers from everyday contact and interviews.

true—but no more true than it is for all free-enterprise businessmen who create benefits for all by working for their own benefit. It would not be too much to say that retailers play an important role in the country's economy. It is their function to stimulate spending, to convert buying power into purchases and thus move manufactured goods into the homes of more people. Through aggressive merchandising and strong promotions, the merchants stimulate consumer demand and keep open the pipelines between production and consumption.

The amount of consumer buying done in the months of November and December, during the holiday season, can mean the difference between a good year and just a fair year for retailers. The two months account for about 25 percent of the annual volume done by all retail businesses.

Preparations in anticipation of the Christmas shopping rush take various forms. Designed to whip up enthusiasm among employees as well as the public, the behind-the-scenes activities include employee pep meetings, the hectic work to finish window and interior displays and the expansion of seasonal departments which do a major share of their volume during this period. Final plans are made regarding store hours, extra help and newspaper and other promotional media campaigns. Parades which culminate with the arrival of Santa Claus at the store by plane, train or jeep; special shopping nights for men; fashion shows; community-paid-for street decorations; contests and events for kids as well as other attractions to bring crowds into the store must be planned months in advance.

But just as the retailer's efforts play an important role in the nation's economy, so does the state of the economy exert a strong influence on the fortunes of the retailer.

The retail businessman has survived the first half of 1954 in fairly good shape. Now he is faced with the happy prospect of operating within an improving economy, whereas during the latter part of 1953 he experienced a sinking one. The credo in retailing is "beat last year's figures."

A glance at last year's results reveals what the retailer is up against. In 1953 total retail sales amounted to $170 billion. Department store sales were over $11.6 billion, according to the figures of the Federal Reserve Board.

The consensus seems to be that retailing's slow period is passed and sales will top 1953 by modest increases, at least. Merchants have faith in the public's buying

power and willingness to spend. They have replaced their earlier uneasiness with confidence, since consumer spending in this year of economic readjustment has been maintained at record levels.

Retailers customarily watch the personal income estimates compiled by the Office of Business Economics of the Department of Commerce. The estimates are used as a gauge to the prosperity and business activity of the country. The OBE states that 1954 personal income may well run $1 billion, or more, ahead of the 1953 figure. There are some, however, who will not go along with the generally favorable outlook as far as personal income is concerned. It is pointed out in these cautious circles that *uncommitted* income, that is, income not taken by installment and other debt payments, life insurance premiums, mortgage obligations and the like, is down—even though total national income is higher than it was a year ago.

Nevertheless, optimism prevails in retail circles. Toys, which last year achieved 39.5 percent of their total sales volume in the one month of December, are expected to do even better this year. The industry is anticipating sales to pass the billion-dollar mark for the first time. The prospects are for the biggest Christmas ever for toys.

Next to toys, believe it or not, the greatest expectations are held for men's and boys' wear which did 21.2 percent of its annual sales volume last December. Here too, there is the belief that Christmas activity will push sales to a point equaling or exceeding last year's figures.

There is no conclusive proof that the investment of a store in displays pays dividends in sales. But at Christmas time large retailers know that the more people they can attract to see spectacular displays, the more people they can sell—once they get into the store. Last year's White Christmas trim at Macy's is estimated to have cost more than $75,000, but hun-

A Sight to Remember

JORDAN MARSH, A BOSTON DEPARTMENT STORE, received a touching letter last year. The writer stated: "Congratulations on your lovely window, the one with the heavenly band of little angels. It's a triumph!

"Yesterday I had the occasion to take a girl in town on her birthday, and she all but pressed her nose against the glass in order to see each little angel more clearly.

The girl in question is my mother, 83 years old yesterday, and almost blind. Won't that be a beautiful sight for her to remember and store up when her sight is all gone? I think so. Thank you."

dreds of thousands of people were attracted to the store. Lord & Taylor is also famous for its Christmas windows, and during the holiday season special guards are posted outside the store to keep the thousands of window-shoppers from being pushed through the glass.

The stores know very well that the public is interested in their Christmas displays. Hundreds of letters are received, some complimentary and others critical. The public must be satisfied even when it comes to interior Christmas displays. Last year, the Emporium in St. Paul had two street-floor Christmas trims—one to please the store and the other to please the public. The first one employed the traditional green-and-red holiday decorations. This was in marked contrast to the store's Christmas decorations which had been used during previous seasons—white reindeer, Santa's sleigh, pink satin ribbon and pastel snowflakes.

When the new green-and-red trim appeared, shoppers began to ask "Where are the beautiful reindeer, the colorful snowflakes, etc?" The customers' reaction was so strong that the display crew worked day and night replacing the main-floor decorations to please the customers.

There are two forms of Christmas-window display. One is promotional, whose primary purpose is to display merchandise for sale. The other is institutional, which is considered noncommercial and presents some aspect of the Christmas spirit or season. There is a growing trend toward the use of religious themes. Carson Pirie Scott & Co., Chicago, one year received more than 1,800 letters complimenting the store on its window displays built around religious themes. Last year the store installed eight scenes which told the origin of Christmas traditions, ranging from the use of mistletoe to the beginning of the Creche depiction. New York's Fifth Avenue Association, guardian of good taste, each year receives thousands of letters from the public requesting the stores to devote some part of their window displays to religious themes and "put the real meaning of Christmas in Yuletide display."

Getting Operation Christmas under way in a large store is an enormous task. It affects practically every executive and employee of the multi-million-dollar emporiums.

Will these efforts be successful in giving a strong seasonal lift to the nation's economy?

Retailers hope so. Now they are waiting for the gift-minded fathers, the Aunt Sallys and the small brothers of the country to make their moves. ■

"The system of government is a by-product of the general conditions of life, including the economic conditions."

Democracy and Abundance

by David M. Potter

Our conception of democracy as a simple matter of moral choice has caused us to hope falsely that other countries will embrace democracy as we understand it, and to misconstrue badly the reasons for their failure to do so. It has even led us to condemn, quite unjustly, the countries which fail to establish a democracy like our own, as if it were plain obstinacy or even outright iniquity which explains their behavior.

By viewing democracy simply as a question of political morality, we have blinded ourselves to the fact that, in every country, the system of government is a by-product of the general conditions of life, including, of course, the economic conditions, and that democracy, like any other system, is appropriate for countries which enjoy an economic surplus and least appropriate for countries where there is an economic insufficiency. In short, economic abundance is conducive to political democracy.

At first glance this proposition may seem abjectly deterministic and may seem to imply that our democracy, like our climate, is a mere matter of luck, involving no merit. But it does not necessarily mean that we enjoy democracy without achieving it; rather, it means that we have achieved it less by sheer ideological devotion to the democratic principle than by the creation of economic conditions in which democracy will grow. In doing this, we have, of course, enjoyed the advantage of unequaled natural resources, but . . . abundant physical endowments do not automatically or invariably produce an economic surplus for the area which possesses them. For instance, New England, poorly endowed by na-

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Excerpted from *People of Plenty*, by David M. Potter, Coe Professor of American History and Chairman of American Studies at Yale University. Copyright 1954 by the University of Chicago Press. The material used here originally appeared in different form in the Yale Review.

ture, became, in the 19th century, one of the richest regions of the United States, while the Cotton South, richly endowed, committed itself to a slave-labor system, a one-crop system, and an economy restricted to producing raw materials, which, in the end, left it the poorest part of the nation.

These instances and many others indicate that man may, through cultural processes, use environment well or use it ill; he may make his political system one of the instruments for such use; he may apply democratic devices for the purpose of developing or distributing abundance, and then he may use abundance as a base for the broadening and consolidation of his democracy. Or, to put it another way, he may use an economic surplus for the purpose of furthering a democratic system which will, in turn, enable him to increase further his economic surplus. . . . A nation may properly be proud that it has developed the economic means which enable it to afford a full-fledged democracy or that it has utilized democratic practices to create the economic base on which a democracy can be further broadened. But it cannot, with any validity, attribute its democracy to sheer moral and ideological virtue. . . .

To understand why a democratic system depends upon an economic surplus, one has only to compare what a democracy offers to its citizens and what other regimes offer. All social systems, of course, seek to keep the bulk of their people contented, and all of them make promises of one kind or another in order to do this—some have promised a utopia in the indefinite future; others have offered, instead of real welfare, inexpensive distractions such as the bread and circuses of the Romans or the lotteries of modern Spain and Latin America; still others have attempted to provide real cradle-to-the-grave security. But however much or little a society, or a government acting for the society, may have to allot, it is axiomatic that it must not arouse expectations very much higher than it is able to satisfy. This means that it must not hold out the promise of opportunity unless there is a reasonable prospect of the opportunity's being fulfilled. It must not invite the individual to compete for prizes unless there are a substantial number of awards to be passed out.

In all societies of economic insufficiency, which is the only kind that existed up to about two centuries ago, certain social conditions have been fixed and inevitable. The vast majority of the people were inescapably destined to heavy toil and bare subsistence, and the economic surplus

in excess of such bare subsistence was not sufficient to give leisure and abundance to more than a tiny minority. In these circumstances, certainly the society could not afford either the economic or the emotional costs of conducting a great social steeplechase for the purpose of selecting a handful of winners to occupy the few enviable positions. It was much sounder public policy to assign these positions by an arbitrary system of status and at the same time to assign to the great bulk of the people the burdens which most of them were destined to bear regardless of what regime was in power. Under a system of subordination transmitted by heredity, social competition, with its attendant loss of energy through friction, was avoided; the status-bound individual often gained a sense of contentment with his lot and even of dignity within his narrow sphere, and all that he sacrificed for this psychological advantage was a statistically negligible chance for advancement. . . .

A COUNTRY WITH inadequate wealth, therefore, could not safely promise its citizens more than security of status—at a low level in the social hierarchy and with a meager living. . . . A democracy, by contrast, setting equality as its goal, must promise opportunity, for the goal of equality becomes a mockery unless there is some means of attaining it. But in promising opportunity, the democracy is constantly arousing expectations which it lacks the current means to fulfill and is betting on its ability to procure the necessary means by the very act of stimulating people to demand them and go after them. It is constantly educating large numbers of people without waiting to see whether jobs requiring education are available for all of them; it does this in the expectation that the supply will create a demand and that a society constantly rising in the level of its education will constantly generate new posts in which educated people are needed. . . .

All this is very well and works admirably if the country following these practices has the necessary physical resources and human resourcefulness to raise the standard of living, to create new occupational opportunities, and to find outlets for the abilities of an ever increasing class of trained men. But it must have this endowment to begin with, or it is certain to suffer intensely from the social waste that results from giving training which cannot be utilized and from the psychological damage that results when a competition has an excess of participants and a paucity of rewards. . . .

Not only has the presence of

more . . . than enough rewards for those who strive, made the maintenance of a democratic system possible in America; it has also given a characteristic tone to American equalitarianism as distinguished from the equalitarianism of the Old World. Essentially, the difference is that Europe has always conceived of redistribution of wealth as necessitating the expropriation of some and the corresponding aggrandizement of others; but America has conceived of it primarily in terms of giving to some without taking from others. . . .

European radical thought is prone to demand that the man of property be stripped of his carriage and his fine clothes; but American radical thought is likely to insist, instead, that the ordinary man is entitled to mass-produced copies, indistinguishable from the originals. Few Americans feel entirely at ease with the slogan "Soak the rich," but the phrase "Deal me in" springs spontaneously and joyously to American lips.

Occasionally, one encounters the statement that Americans believe in leveling up rather than leveling down. The truth of the assertion is more or less self-evident, but the basic meaning is less so. Clearly, if one is leveling a fixed number of items, say personal incomes, the very process of leveling implies the reduction of the higher ones. But in order to raise the lower without reducing the higher, to level *up*, it is necessary to increase the total of all the incomes—that is, to introduce new factors instead of solving the problem with the factors originally given. And it is by this stratagem of refusing to accept the factors given, of drawing on nature's surplus and on technology's tricks, that America has often dealt with her problems of social reform. . . .

WRITERS on public questions often assume that in our early history we had a basic commitment to individualism and that we have recently abandoned this traditional principle just for the sake of security. But what we really were committed to was realizing on the potentialities of our unmatched assets and raising our standard of living. Because the standard of living involves comfort and material things, a basic concern with it is commonly regarded as ignoble; yet, as I have already suggested, it is only because we have attained a relatively high standard of living that we can afford to own and operate a democratic system. But, whether noble or not, our commitment to abundance was primary, and individualism was sanctioned as the very best means of fulfilling the

possibilities of abundance. When it ceased to be the best means, we modified it with a readiness alarming to people who had supposed that it was the individualism itself which was basic. We did this because a great many people had never regarded it, at bottom, as more than a means to an end. The politics of our democracy was a politics of increasing our wealth quickly rather than of dividing it precisely, a politics which smiled both on those who valued abundance as a means to safeguard freedom and on those who valued freedom as an aid in securing abundance.

In so far as Americans have succeeded in equating abundance and freedom, it becomes something of an abstraction to question which is the means and which is the end. The historical analyst may itch to discover which one is basic and which derivative, but the purpose of Americans, generally, will be to make the two coincide in such a way that, as factors, they cannot be isolated. In this sense, it may seem somewhat metaphysical to make heavy-handed distinctions between these two ingredients—freedom and abundance—which are to such a great extent fused in American democratic thought.

BUT, THOUGH Americans have caused freedom and abundance to converge, the two are not by nature prone to convergence, and for the world at large they have not been closely linked. Consequently, when America, out of her abundance, preaches the gospel of democracy to countries which see no means of attaining abundance, the message does not carry the meaning which it is meant to convey. No other part of American activity has been so consistently and so completely a failure as our attempt to export democracy. At this point, the duality between abundance and freedom in the American democratic formula ceases to be abstract and becomes painfully concrete, for it is the lack of understanding of what we have to offer to the rest of the world that has vitiated our efforts to fulfill a national mission which we undertook with real dedication and for which we have made real sacrifices. . . . ■

Three Million Straphangers

THE AVERAGE New York workingman spends 480 hours a year in crowded subways and buses traveling to and from his job. That is the equivalent of sixty work days or twelve work weeks.

With farm prices down and food prices up, costly factors enter into the expensive journey

From Farm to Dinner Table

AS EVERY HOUSEWIFE KNOWS, the price of bread, milk, meat and many other basic food products has gone up in the last three years. As every farmer knows, his receipts for cereals, milk and cattle have fallen in the last three years. And as every politician knows, both farmer and consumer would like to know the reason why.

It is only natural that many people should be looking for a "villain." That unhappy role has fallen to the "middleman"—a term that includes wholesale jobber, packer, distributor, retailer, etc.

There can be little doubt that the middleman's share of the consumer's food outlays has grown at a much faster rate than the farmer's. Department of Agriculture figures indicate that in 1946 the annual retail value of the consumer's market basket for an average family of four amounted to $767, of which $370 went to the various middlemen. In 1953, the annual retail value of that same market basket amounted to $1,002, with the various middlemen getting $550. In other words, the middleman's share of the $235 food price increase in the last eight years amounted to $180, or more than 75 percent of the total rise in retail food prices.

But, and this is the really important question, is this increased "spread" the result of "profiteering" on the part of the middleman, or—as middlemen spokesmen claim—can it be traced to higher wages, business taxes, transportation costs and the growing consumer demand for better processing and packaging?

According to statistics compiled by the House Committee on Agriculture, about 44 cents of each dollar spent by the American housewife on domestically grown food products go to pay the farmer for his raw materials and labor. The remaining 56 cents "cover" the many services needed to transform a raw "crop" into the food item you buy.

Is this 56 cents excessive? The Grocery Manufacturers of America (GMA), a trade organization representing the processing segment of the food industry, recently published a well-documented study which shows that the middleman's share of the consumer's food dollar in 1953 was 55 cents—a cent less than he is making now. Of this 55 cents, 27.5 cents (or half of the entire spread) covered wages and salaries. Another 6.5 cents accounted for transportation costs and 4 cents went into manufacturer and distributor taxes. Packaging materials, rent, depreciation and other lesser expenses accounted for yet another 14 cents. This left about 3 cents of the consumer's food dollar as the combined net profits of the processor, the wholesale distributor and the retailer.

GMA, one of the few organizations conducting such studies, also looked at the profit history of 89 "representative" food manufacturers and came up with some surprising statistics. In 1953 sales had risen to $19.2 billion (an increase of almost 90 percent since 1946) but net profits, at $477 million, had increased a little more than 10 percent. Since similar (though much smaller) studies by the Department of Agriculture show substantially the same trend, it is safe to assume that while the middleman's overall profits have increased somewhat, his profits as a percentage of sales have declined drastically (according to the GMA study from 4.1 percent of sales in 1946 to less than 2.5 percent of sales in 1953). "Profiteering," most economists agree, cannot explain high food prices for the simple reason that, by and large, it does not exist.

But, if rising middlemen costs rather than rising middlemen profits are responsible for high food prices, we are still left with the thorny question of whether all these costs are "necessary." Does the middleman really deliver more value in exchange for the larger share of the food dollar he is taking?

Government statistics indicate that most of us think he does. Up to 1940, it had been the historic pattern in the United States (as well as in most other industrialized countries) for the percentage of disposable income spent on food to go down as national income rose. In other words, although the dollar value of our food purchases went up, such food purchases came to represent a smaller and smaller share of our disposable income.

The editors of CHALLENGE have concluded that the price spread on food is a natural consequence of a general trend—the growth of service industries and their rising costs.

Since 1940, however, this trend has been reversed. In 1953 we were spending 25 percent of our disposable per capita income on food, compared to 23 percent in 1939. Actually, these figures are much more dramatic than they might appear at first glance. For, if we were buying only the same food items we bought in 1939 (at 1953 prices) we would be spending only 17 percent of our disposable income on food. Obviously, there has been an important change both in the quantity and, even more important, the kind of foods we buy. On the whole, few people would seriously challenge the middleman's claim that this "up-grading" of our diet is in large measure attributable to improved packaging and processing techniques which have, as a rule, paid off in terms of better health, greater convenience and a more leisurely way of life. If they haven't, the consumer has allowed himself to be taken for a ride.

Nor is the consumer the only one who has gained. Improved processing and marketing techniques are also creating new markets for the farmer's products. Take the case of evaporated milk, which provides the farmer with a large and stable market outlet for his increasing milk production. Each year condensaries buy about 6 billion pounds of milk for the manufacture of "evap." For this, farmers receive more than $200 million, or roughly 51 percent of the retail value of the processed product.

The same is true of canned and frozen fruits and vegetables. These new products, which do away with such monotonous cooking chores as peeling, shelling, cleaning, etc., are especially attractive to career girls, working wives, bachelors, etc., who would not have bothered to buy such foods before. Demand for processed fruits and vegetables has, therefore, risen by leaps and bounds.

One constructive outgrowth of the current furor surrounding the food price "spread" will undoubtedly be a careful re-evaluation of the ultimate implications of the current upsurge in services and the development of kitchen-ready food products.

There is a growing suspicion in some quarters that the food processors and distributors may be gearing themselves to a demand potential which could drop radically with the advent of a significant recession in the national economy. In that event, many food executives feel, the housewife will get back to first principles and revert more strongly to lower-priced staples, leaving the processor who deals in costly "convenience" food items out on a limb. ■

If we move out of the "readjustment" as gently as we slipped into it, we can resume an expansion of the economy without upsetting the present stable wage and price levels

Is Inflation The Price of Expansion?

by Arthur W. Viner

THE UNITED STATES has enjoyed an unusually stable price level since the end of the buying spree which was touched off by the Korean war. From Turkish baths to new tractor tires, there has been little change. The great expansion of our economy from 1951 to 1953, with rising production and incomes, was accomplished without inflation. This was a feat almost without precedent. It was the more surprising in view of the fact that inflation had been a dominant factor in our economy since the end of World War II, with the one interruption of the recession of 1949.

Today we see signs of a recovery from the nation's most recent business slump. It becomes pertinent to inquire, then: Was the 1951-53 avoidance of inflation a freak? Can we do the same trick twice? Can we enter a successive stage of expansion without bringing inflationary conditions upon ourselves again?

The kind of slump we have had will have much to do with the kind of recovery we may have, and whether inflation will accompany it.

Looking back to the origins of the 1953-54 slowdown, we can perceive readily now that toward the middle of 1953, our greatly expanded economy began to turn out more goods than consumers wanted to buy. At about the same time the Government, the biggest consumer of all, began to cut back its expenditures for defense and other purposes.

For a few months, the nation's industries continued to produce for all they were worth. Inventories began to pile up as many items could no longer be sold as fast as they were produced. Late last year, companies began to cut their production in order to work off their excessive stocks.

The slowdown, or readjust-

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ment, was on. The most important factor in the decline in the nation's output was the change in the inventory situation. In the second quarter of 1953, inventories were being accumulated by businesses at an annual rate of over $5 billion; one year later, inventories were being *reduced* at a rate of $4 billion a year, a difference of $9 billion. Most of this took place in durable goods. The second most important change was the $8-billion decline in Federal purchases for national defense.

The number of unemployed workers more than doubled between June 1953 and March 1954. Industrial production declined steadily from July 1953 to April 1954, and then leveled off; at its greatest extent, the drop in production amounted to 10 percent.

But it has been a strange, gradual and spotty recession, quite different from the classic picture. Not only the general price level, but wage rates, have been relatively stable. While expenditures for inventory went down, spending for new plants and equipment was well maintained. Consumer spending has been stable, helping to drain off inventories. Tax reductions and the general stabilizing effect of our income tax system have helped. And unemployment compensation payments have held total personal income *after* taxes to its peak level throughout the past year.

Without a return to an expanding economy, which we want, we are unlikely to have inflation, which we do not want. Before considering the likelihood of inflation, we must, therefore examine the signs of recovery from "readjustment."

Few economic experts doubt that today's economy will look rather small from the vantage point of ten years hence. The mere fact that the great crop of war and postwar babies will be getting married and setting up housekeeping in the 1960s is enough to give an idea of the greater size of future markets. And the markets are themselves changing rapidly. We do not yet have a real idea of the impact on the economy of the tremendous move from city to suburbs—and to new suburbs at that—which has been going on since the end of the war. Years of prosperity, moreover, have greatly enlarged the middle-income group which does the bulk of the public's spending on many products of industry. But 1960 is a long way off.

Perhaps only the pessimists feel that the recession has not yet run its course. But there are many who see no short-run prospect of a sharp recovery from the decline

of the past year. Many who have studied the forces at work in the economy feel that the best we can expect is a period of stability in which the adjustment to the hard competition and changed market conditions will be completed.

THE American economy, however, has become accustomed to electrifying economic developments that change the whole course of economic history. The automobile changed our way of life, and, to a lesser extent, so did the motion picture, radio and television. New miracles are on the way. There is much excitement over automation and the application of atomic energy to industry. The restlessness that helps to create an atmosphere of motion—the characteristic atmosphere of America—also stimulates change. And change stimulates spending.

Now that the sellers' market has been replaced by a competitive market, innovation is at a premium. The aggressive and alert company will benefit. The public, in turn, will enjoy the prospect of more rapid changes and improvements in the products it can buy. In such an atmosphere, stagnation seems highly unlikely.

A number of companies, moreover, have brought their once-swollen inventories into better balance with their sales. Production should soon begin to increase. As more companies step up their production, business spirit is bound to improve. Higher production will also mean bigger orders for suppliers. Expansion and modernization projects that were put on the shelf when business slackened last year will be dusted off. With these factors added up, a recovery seems likely. That is the picture as the optimists see it, and most of us are optimists.

Whether we will have inflation when recovery gets underway depends on a number of questions. What, for example, will be the speed of the recovery? If there is a sharp recovery, many prices could rise, as the result of relative shortages of goods and ample funds with which to buy them. But it must be remembered that consumer spending has been well maintained during the recession, and that the Government plans no expansion of its spending. It must also be remembered that the recession was gentle. Few wants have failed to be transformed into actual demand. The most likely prospect seems to be for a recovery as gradual as the decline.

Higher prices as an accompaniment to recovery depend also on the existing sources of inflation. In tracing the main features of the recession, we have seen that the cumulative worsening of eco-

nomic conditions that has characterized many past declines was largely absent. Whole areas missed the recession altogether. No sweeping rise of demand seems likely.

There is, however, one flaw in this picture. The general price level, at wholesale and at retail, did not join in the decline of 1953-54. There is a possibility that recovery will be accompanied by a number of price increases. But to call a few price increases inflation is as misleading as to label a few declines recession. With strong competition in the offing, some prices will undoubtedly be cut. As long as nothing happens to conjure up the possibility of future shortages, as in the Korean war buying sprees of 1950 and 1951, prices in general need not rise.

There is, of course, a constant possibility in today's unsettled world that the international political situation will change. If war should seem imminent, inflation will once more be a great danger to the economy. There is no need to dwell on that eventuality. If it should emerge, all bets will be off, and we shall be facing a different set of economic possibilities.

But what if most of the experts are wrong, as sometimes happens, and we do get inflation without a war? Fortunately, governmental anti-inflationary instruments are available. There are policies that require deliberate action in order to prevent or moderate both recessions and inflations. Strict economy in government spending —state and local, as well as national—can be invoked to reduce the government's demand for goods and thus to reduce the pressure for higher prices. Taxation plays an extremely important role; in inflationary periods taxations should be carried out in kinds and amounts that will limit the rise in the spendable portion of the incomes of consumers and businesses. Finally, Federal monetary and debt-management policy, in times of inflation, should be directed toward restricting the volume of credit and the supply of money.

WHETHER we shall have inflation when recovery gets underway thus depends partly on the measures the Government takes to prevent it. One of these measures, fiscal policy, has been determined in a preliminary way for the next year: the expected $2 billion increase in borrowing for the cash budget should help to stimulate recovery. Whether this will also stimulate inflation remains to be seen.

If expansionary influences develop, a great share of the responsibility for preventing inflation will rest with Federal monetary

policy. The proper application of that policy will be of the utmost importance. Foreseeing the liklihood of recession in the spring of last year, the Federal Reserve Board reversed the anti-inflationary policy it had maintained when the economy was bounding upward and began to make credit easier in order to sustain economic activity. A number of steps were taken to provide borrowers with ample, cheap credit. (Nevertheless, with seasonal influences eliminated, the total supply of money has failed to increase in the past year.) The "Fed" must be equally quick to tighten up when the trend is reversed.

The monetary authorities will have to carry out their activities delicately in the months ahead. The premature application of the brakes to expansion, in the form of tighter credit conditions, could easily bring on a new decline. But if the Federal Reserve Board waits too long, it can help inflation to get started. Credit is very easy at present. A slight tightening at the proper time, followed by further tightening if developments warrant, will be perhaps the greatest weapon we have against inflation. The job will not be easy, but it can be done.

A resumption of inflation is thus possible in the next year or so. But unless the forces now at work in the economy change considerably, it is not likely to be a serious threat for some time. If inflation does threaten, we can control it. We have learned a great deal about economic stabilization in recent years, and we have come to recognize that a stable, growing economy is our best guarantee of steadily rising living standards.

BUT that does not mean that we will apply what we have learned. A glance at the inflation of recent years demonstrates that learning is not enough. Most people enjoy inflation for a while, and a great educational job must be done to prove that inflation is, in its way, as great an evil as recession. On the other hand, we must avoid being so obsessed with the spectre of inflation that we start to prevent it before it occurs, and thus drive ourselves into more recession. ■

Living off the Land

OUT OF EVERY TEN PERSONS in the world, six live on farms and depend on agriculture for a livelihood. This ratio varies considerably from continent to continent: In North America only two persons out of ten depend on agriculture in contrast to seven out of ten in Asia and Africa.—*Twentieth Century Fund*

The question of practicability revolves solely around the question of cost, and already even the most conservative support predictions of power costs close to the competitive level

Electric Power from The Atom—When?

by Lawrence R. Hafstad

IT IS IN THE tradition of science first to *observe*, then to *understand*, and finally to *utilize* the forces of nature. For over a half a century scientists from all over the world have been observing and studying the forces within the atom and dreaming of the time when these forces might be utilized in the interests of mankind. During the 1930s, the curve of this scientific activity began to soar upward.

In the last decade there has been a tremendous upsurge of interest in atomic energy, started by the dramatic introduction of this new force during the war for atomic bomb explosions, and, increased more recently in connection with the realization of the imminence of the possible use of the same force for peaceful purposes.

Interest in atomic energy stems from the fact that in uranium we have what promises to be both a compact and a cheap source of energy. It is certainly compact. One pound of uranium, about a cubic inch, contains as much energy as several carloads of coal, more precisely 1,500 tons of coal. That this energy promises to be cheap, we can see by calculating the cost of 1,500 tons of coal. At $8 per ton, this would be in the neighborhood of $10,000, whereas the cost of one pound of uranium is more like $20. When one stops to realize the endless hours of engineering effort which have gone into improving the various commonplace energy-using machines by a few percent in efficiency to reduce fuel costs by a corresponding few percent, one can realize the challenge felt by engineers when presented with an opportunity of decreasing costs, not by a few percent, but by a factor of 500. This is the challenging technical problem we face.

So far as practical use is concerned, the calculations I have just given you are as significant as, but no more significant than, the calculations involving the amount of the energy available, for example, in the tides of the ocean. The energy is there; no one questions that. The problem is to get the energy out and into a usable form at a cost which makes the energy, *in this final usable form*, no higher than that available from other competitive sources. In spite of the availability of the vast "free" energy of the tides, we do not draw upon this source.

By a historical accident, the possibility of utilizing atomic energy was developed during a period of international stress. As a result, the work accomplished in this field in our country has been done under Government monopoly. In this situation, it has been necessary for the Atomic Energy Commission, in charge of the monopoly, to make decisions, which, in this country, would normally be made by private industry. In either framework, however, the key question is: Will the end result justify the very high cost of development of an entirely new process for the extraction and utilization of heat? To approach this problem rationally, it is necessary to make a market survey to determine the possible or probable future demand for such heat or energy. This can be quickly done.

IT SO happens that in industrialized nations the demand for energy is rising rapidly. Both the population and the per capita demand for energy are mounting. In this country the demand for electric power has been doubling about every ten years, and there seems to be no basis for assuming that this trend will stop. It is also clear from the studies of the Paley Commission and others that most of the increased demand is for energy from the fluid fuels—petroleum and natural gas, specifically. Hydropower, while still extremely important and without question the cheapest source of such energy, is unavoidably limited in availability and will, over the years, contribute a decreasing percentage of the power requirements.

With demand established, the remaining problem is the one of future relative costs between different sources of energy. Here the problem depends to a large extent on the color and shade of the several crystal balls used by various forecasters. In general,

Adapted from a recent address by Lawrence R. Hafstad, Director, Division of Reactor Development, U. S. Atomic Energy Commission, before the Missouri Basin Inter-Agency Committee, Rapid City, N. Dak.

however, while the cost of power from atomic energy plants, as now conceived, is undeniably high, historically the trend in a new industry is for a rapid reduction in cost as the technology develops and volume increases. On the other hand, in an old and established industry, costs tend to stabilize and eventually even to begin to rise again as the technology is perfected and rising labor costs begin to dominate. Those of us in the atomic energy business feel that the cross-over point on these two curves is likely to come somewhere between five and fifteen years from now, depending on the vigor and intensity of the development effort in the atomic energy field.

For the reactor core we need materials with four properties: (1) they must stand high temperatures; (2) they must not absorb too many neutrons; (3) they must stand exposure to intense radiation; and (4) they must stand up under corrosion.

Now we begin to see the difficulties. There are very few materials available which can simultaneously meet these four requirements. In fact, uranium itself, which obviously is a very necessary component of the reactor core, is a particularly bad actor so far as stability in the presence of radiation is concerned.

Control is another serious problem. For civilian purposes, it is necessary that the enormous store of potential energy within a reactor core be released gradually and under controlled conditions. In a power reactor, uncontrolled release of this energy, while extremely unlikely to cause an actual explosion, can conceivably lead to temperatures higher than those which available materials can stand.

Still another problem is that of the handling and disposal of spent fuel elements and wastes. Nuclear reactions yield fission products which are analagous to the ashes of an ordinary combustion process though much less bulky than the ashes of combustion. They are radioactively "hot," that is, they are sources of intense radioactivity similar to the radioactivity from the reactor itself. For this reason, they must be handled by remote handling devices, under water or behind shields, and disposed of in ways which will prevent contamination of the environment. All of this is expensive.

SUCH THEN are the problems, and they are indeed formidable. However, thanks to the devoted efforts of scientists and engineers in our great National Laboratories at Argonne and Oak Ridge, at other AEC installations, and by our industrial contractors, solutions have been found.

The Argonne and Oak Ridge National Laboratories have each produced experimental reactor power plants which have actually generated in the neighborhood of 200 kilowatts of electric power—enough to satisfy the needs of a good-sized commercial building.

The Commission, with Westinghouse as its contractor, has under way a project to design and build jointly with the Duquesne Light Company a nuclear power plant that will generate 60,000 kilowatts of electricity. This is enough power for a good-sized city.

There is no longer any question that power, specifically electric power, can be produced from nuclear power plants. The question of practicability revolves solely around the question of cost. It is natural to ask: How close are we now to economical atomic power? Unfortunately, this is a difficult question to answer. We really don't know because as yet, no plant specifically designed for economical civilian power has been built and operated. It is significant, however, that the engineers' cost estimates, made by groups representing the Commission's development contractors and by independent groups representing *both publicly* and *privately financed utility organizations,* are arriving at figures which indicate that nuclear power plants should be able to produce power at a cost within a factor of about two of the present national average. It is significant, too, that whereas a few years ago the low-cost estimates came only from enthusiastic amateur groups, while the estimates of our experienced industrial contractors were invariably disappointingly high, in recent months accumulated reactor experience has led even our most conservative and sophisticated contractors to support predictions of power costs close to the competitive level.

IF NUCLEAR power plants are likely to become economic at some time in the future—even if people in this country have to buy them abroad—it is worth something to a utility management, private or public, to begin to gain experience with them in spite of likely high cost of the first plants. The need for this experience could provide the basis for a cooperative program in which the excess cost of nuclear power from these first plants would be financed partly by the operator and partly by the AEC.

With increasing experience on successive reactors, the difference between the cost of a nuclear and a conventional plant should become smaller and smaller and eventually vanish entirely, at which point the Government could step out of

the picture. This approach seems to be one that can be made acceptable to the operating industry which, because of the nature of its business, does not lend itself to the accumulation of risk capital. It further has the advantage of avoiding the high cost to the taxpayer of a long-continued subsidy program, for very few reactors will be built until power reactors become truly economic. Although some accounting and ownership problems are involved, this approach seems to be the most realistic under our present boundary conditions.

There are five high-fuel-cost areas in the United States—one in the intermountain area in the West, one in and around South Dakota, another in Maine, a fourth in Florida, and the fifth in the Upper Michigan Peninsula. In each of these areas, energy costs are roughly thirty-five cents per million British Thermal Units (BTU) delivered.

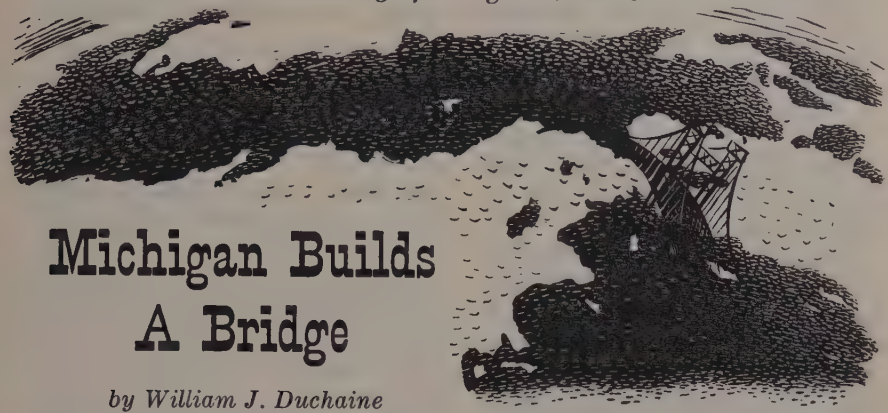
On the other hand, the low-cost areas are in the Gulf region and along the Ohio River where energy costs are in the neighborhood of ten to twenty cents per million BTU. Now this does not seem to be a tremendous difference in fuel costs, but it is surprising how much effect this differential has in the location of industry which, as we all know, shows a tendency to concentrate in the Ohio River valley and more recently in the Gulf region where the fuel costs are particularly low. It is true that cost of fuel represents an extremely small fraction, in the neighborhood of 1 or 2 percent, of the cost of finished products, but it seems to be a percentage that gets a lot of management thinking and does have an effect on the location of industry.

If the international situation continues "not to improve," there would be a very great element of national strength in a utility system composed of electric power plants widely dispersed throughout the heartland of the continent, with plants preferably underground and each with a twenty-year supply of fuel stored in some convenient corner closet. I can only hope that our mobilization planners and our civilian defense planners give due weight to the implications of civilian atomic power. ■

Efficient Auto Production

AUTOMOBILE PRODUCTION has become so synchronized in all its operations and has achieved such efficiency in mass production methods that a completed car rolls off the assembly line two weeks after the raw materials are purchased.

"Hiawathaland" has promoted a new economic future for itself—as symbolized by the bridge joining it to the Lower Peninsula



Michigan Builds A Bridge

by William J. Duchaine

THREE LONG LINES of automobiles idled bumper to bumper on the Mackinaw City dock. It was the usual traffic waiting to be ferried across the Straits of Mackinac to Michigan's Upper Peninsula.

One motorist vented his impatience by complaining to the driver parked in the next lane: "After all this waiting in line, it's going to take an hour on the boat. Next time, I'll go around by way of Chicago."

The occupant of the other car was less restless. He pointed to the Merritt-Chapman & Scott construction crews sinking caissons nearly 200 feet down to the bottom of the Straits.

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"When those boys finish the bridge," he said, "you'll be able to drive across in ten minutes."

The five-mile bridge will be a big thing for the Upper Peninsula. With it the region will really become a part of Michigan. Already a spirit of optimism pervades the Upper Peninsula's 302,000 inhabitants. The new bridge, however, is not the cause, but merely a symptom of the drive to reactivate the economy of the Upper Peninsula to what it once was—a busy and vibrantly productive system.

The Upper Peninsula is big enough to be a state by itself—larger than Belgium or Switzerland. It comprises 16,691 square miles, extending from Sault Ste. Marie, at the Canadian border, westward for more than 300 miles

to Ironwood, near Minnesota. Wisconsin and Lake Michigan lie to the south and Lake Superior to the north. The early miners and lumbermen came to the Upper Peninsula and found a wealth of natural resources—pine forests, copper and iron ore. Those were the days of "come and get it" and 'cut out and get out."

The first copper mine, the Cliff, was opened in 1844 on the Keweenaw Peninsula—Michigan's copper country. Iron ore was discovered in the same year at Negaunee. Then, iron mining spread southward to the Menominee range in the late '70s and westward to the Gogebic range in the '80s, contributing greatly to the nation's industrial rise.

To these copper and iron mines came immigrants of hardy European stock—Cornishmen, Slavs, Italians, Swedes, Norwegians and Finns.

White pine lumbering began in the Upper Peninsula before the Civil War, bringing lumberjacks from New Brunswick, Nova Scotia, Quebec and Maine. Later, immigrants from Scandinavia and other European areas came to settle.

At the eastern extremity of the Upper Peninsula is Sault Ste. Marie, the first permanent white settlement on Michigan soil, founded in 1667 by the French Jesuit explorer, Jacques Marquette. Construction of the first Soo lock, enabling quick passage of ore boats, touched off the early Upper Peninsula boom. Fortunes were made in iron, copper and lumber. Jobs were plentiful. Mining and lumbering towns grew.

By the turn of the century, deep-seated economic changes were underway. Gradually, iron and copper mines were abandoned because the high-grade ore was exhausted; or the mines had become too deep to operate profitably. The pine timber, once thought inexhaustible, was cleaned out. Sawmill towns became ghost towns.

Business and industrial leaders were, of course, cognizant of the problem facing the Upper Peninsula more than four decades ago. In February, 1911 a group of 248 civic boosters met at Menominee to consider what should be done with the 6.5 million acres of idle, cut-over land.

Keynote speaker was a young, energetic Sault Ste. Marie newspaper editor, who later became a big-city publisher and a Secretary of the Navy—Frank Knox. He urged the formation of an organization to promote the economic development of the region. As a result, the Upper Peninsula Development Bureau was formed.

In its early years, the Bureau brought colonists in to farm the

cut-over lands. During World War I, it launched an ill-fated cattle-grazing project in "clover-land."

But, finally, came the realization that much of the cut-over land was suitable only for its original purpose—the growing of trees. The Bureau induced the U. S. Forest Service to establish the Hiawatha, Marquette and Ottawa National Forests, embracing more than 1.5 million acres of cut-over lands. At the same time, the Upper Peninsula turned to an energetic promotion of its hunting and fishing facilities, its lakes, rivers, forests and other recreational resources.

This promotion brought some results. New resorts, overnight cabins, boat liveries and other tourist facilities sprang up. In addition, the denuded forest areas were green again. They began producing pulpwood for the Peninsula's three paper mills.

DESPITE these gains, however, something was lacking. The 1950 census figures came as a rude shock. While Michigan, as a whole, had a 21 percent increase in population since 1940, the Upper Peninsula had a seven percent decline.

Vacation promotion had not been enough. George Bishop, secretary-manager of the Bureau for the past thirty-three years, hit the road again. In cities and hamlets he emphasized over and over again that the Upper Peninsula must get new industries or else lose more of its young people to industrial cities.

In Escanaba, a city of 15,000, the Chamber of Commerce raised $30,000 by public subscription. The city council appropriated funds to build and repair factory buildings. Escanaba landed several new industries. One of them, the Harnischfeger Corp. located its truck-crane and welder plants there and now employs 700 people.

The Iron Mountain-Kingsford community was hard hit in 1951 when an automobile plant was shut down. More than 2,500 people were made jobless. Iron Mountain businessmen and civic leaders organized a new company, with local and outside capital, and bought the idle plant. Three diversified industries moved in and hired 1,000 men and women.

Although copper mining probably never will attain its previous status, the copper country is cheered by recent developments. Calumet & Hecla are reactivating the Osceola mine, idle since 1931. And the Copper Range Company has launched its $70-million White Pine mine project in Ontonagon County, which by next year will be employing about 1,000 people.

Things are looking up, too, in

the iron ranges. Mining companies are taking steps to utilize low-grade jasper ore. There are billions of tons of it in the ground. And some high-grade ore, too; about 600 million tons.

The Upper Peninsula's struggle with its economic problems has aroused the interests of the Lower Peninsula's industrial leaders. Men like Walter Cisler, of Detroit Edison, and John Coleman, of Burroughs Adding Machine, matched Upper Peninsula contributions to a $20,000 fund to finance an extensive economic survey of the region. Ebasco Services, Inc. of New York made the survey.

THE EBASCO report suggested opportunities for expanding wood-using industries, agriculture and the tourist business. But the region's greatest asset, Ebasco emphasized, is the people, who constitute a supply of highly productive workmen. When Harnischfeger located in Escanaba, it had no difficulty in hiring a complete force of capable and experienced factory workers. Many of them had come home with a background of experience in downstate auto plants and other industries.

Also stressed in the Ebasco report was the need for additional electrical power to develop new industries. Accordingly, the Upper Peninsula Generating Company has begun construction of a 22,000-kilowatt plant at Marquette. Plans are underway to expand generating facilities in other areas.

The idea of linking the two Michigan peninsulas with a bridge has been talked about for half a century. A native son of St. Ignace, former U. S. Senator Prentiss M. Brown, has been crusading for the project for years. He was appointed chairman of the Mackinac Straits Bridge Authority, empowered to arrange the financing of this ambitious undertaking. The Ebasco report was used as a prospectus to convince bond houses that the Upper Peninsula has a future and that the Straits bridge would pay off. Merritt-Chapman & Scott began construction work this spring.

THE Upper Peninsula is coming back. It was vastly cheered when Congress recently approved the St. Lawrence Seaway project. Already, various communities have set up committees to study the Seaway's local possibilities. Former residents are returning to set themselves up in stores, resorts and other business enterprises. Others want to work where they can hunt, fish and enjoy happy living in a homeland they love. After 1957, many of them will be driving back over the new Straits bridge. ■

From the Bookshelf

West Germany's dynamic and profitable free-trade policies suggest the benefits to be derived from creating a bigger world-trade "pie" for all

Germany's Role in The World Market

Reviewed by Paul V. Horn

GERMANY'S COMEBACK IN THE WORLD MARKET. By Ludwig Erhard. 271 pp. New York: The Macmillan Co. $4.50.

IN JUST NINE YEARS, West Germany's ruined cities and battered industries have recovered with a speed which perplexes those who predicted a German paralysis for the next half-century.

Despite the loss of more than 40 percent of her prewar territory, by the end of 1953 the gross national product of the German Republic had risen to $55 billion —40 percent more than the 1936 figure for *all* of prewar Germany. Between 1948 and 1953, real wages to factory workers rose 80 percent. Gold reserves went from zero to over $1 billion, and exports from $1 billion to $4.4 billion.

Germany's Comeback in the World Market, by Prof. Ludwig Erhard, is an interesting and factual discussion of some of the chief elements which have aided or otherwise affected Germany's postwar trade recovery. The author has apparently leaned over backwards to be fair, objective and constructive. This is all the more commendable since Dr. Erhard is Minister for Economics in the German Federal Republic and presumably has a personal prejudice about how economic matters have been handled.

Dr. Erhard is not only in a position to know what he is talking about, but he merits a great deal of credit for directing the surge that the economy of post-

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war West Germany has experienced.

It is significant that Dr. Erhard is a strong advocate of liberal economic policies on a global scale. He favors a lowering of all international economic barriers, including those to currency convertibility; he encourages reciprocal trade treaties; and he is a practitioner of a dynamic policy of trade promotion by private enterprise. He favors government encouragement and assistance to business—but with a minimum of regulation. The record shows that he has strived with considerable success to implement these policies. As a proponent of the free competitive system, he is opposed to the restrictive economic practices of cartels—a subject of hot controversy in Germany today.

Dr. Erhard leads off with the following significant comments: "A glance at the map explains our position. With about 50 million inhabitants, the Federal Republic lives on a narrow strip of land between the Elbe and the Rhine. This strip is viable only if it is a workshop of the world with a maximum export of machinery and consumption goods. It is to our advantage that these goods, as well as our technical knowledge, are liked and indeed required abroad. . . .

"We possess no preferential markets or colonial empires. Our foreign trade and with it our existence are guaranteed only by the efficiency of our merchants and by the effectiveness of a trade policy affording protection against unreasonable import barriers and discrimination."

In speaking of trade policies, Dr. Erhard observes that: "An *autarkisch* or nationalistic policy aims at narrow advantage at the expense of other nations and leads to a dead end, whereas a policy of free-world trade identifies the national interest with those of a multiplicity of other countries. . . . Even the smallest and most remote market is an indispensable item in our foreign economic policy; a one-sided discrimination can bring us no gain, since we are bound to lose by disadvantages caused to other countries by such a policy.

"Unconditional, most-favored-nation treatment, convertible currencies, the abandonment of quotas and of artificial rates of exchange—these are the theoretical and practical foundations of a world trade policy required by a highly specialized, industrial, exporting country like Western Germany."

One cannot read these lines from the pen of the Minister for Economics of contemporary Germany without being struck by two thoughts: (1) their striking contrast to the highly national-

istic and Schachtian policies of prewar Germany; and (2) their similarity to the free-trade policies of Great Britain during the period of more than a century preceding 1914.

The reason, of course, is that a nation's circumstances largely determine its national policies. With insufficient food and raw materials at home, a peaceful Germany, like a peaceful Britain, must import from abroad or starve. In turn, sufficient exports must be sent abroad in order to supply the foreign exchange needed to pay for the necessary imports. Therefore, one comes face to face with the practical consideration that exports cannot be sold by force but only by persuasion—with mutual advantages accruing to both buyers and sellers.

We have evolved from the postwar seller's market into a buyer's market, and it is the keener competition for world export markets by Germany and Japan that is now worrying exporters in Britain and the United States.

Dr. Erhard seeks to allay this concern by pointing out that Germany's share in world trade "continues to be below the prewar level." He suggests that it is far better for Germany's trade partners to adjust to her world-wide competition than to have Germany "clogging European reconstruction" by remaining an "economic vacuum."

It might be observed here that at this stage in world affairs, there is reason to fear that unless the economies of West Germany and of Japan are promptly fitted into the free-world pattern, these countries may be unable to remain on our side of the Iron Curtain.

Common sense dictates that the basic solution to the present and probably future scramble for export markets is *not* to be found in a blind cat-and-dog struggle among the free countries striving to obtain the largest possible share of the existing limited world trade.

A more effective strategy would be to make a bigger world trade pie so that there will be more for everyone concerned. This can be done by increasing purchasing power generally, which in turn implies that the existing international credit machinery must be made more adequate and technical assistance to those who need it accelerated. It would seem that a relentless reduction everywhere of all forms of trade barriers should be among the first steps taken to bring the economies of the world into better balance.

Germany's Comeback in the World Market is a practical handbook to recent German economic history. Its opening chapters re-

view Germany's steps toward political and economic independence, the frustrations resulting from an occupation bureaucracy, American economic aid, and Germany's efforts towards the integration of Europe. Then follow chapters on the problems resulting from the dollar gap and the Federal Republic's activities in creating foreign exchange by liberalizing its tariff policies and encouraging imports. An extensive and most impressive part of the book is an account of Germany's aggressive and, we might add, strikingly successful activity in negotiating advantageous commercial treaties with countries in all parts of the world.

An entire chapter is devoted to "Imports as an Instrument of Export Policy," which some of our own "Buy America" zealots might, with benefit, digest and take to heart. A chapter on "Machinery for Encouraging Foreign Trade" is an enlightening report on the successful commercial activities of a new type of German chambers of foreign trade which have been established in many countries. The three concluding chapters discuss Germany's foreign debt, which West Germany has undertaken to pay, the entrance of the Federal Republic into postwar world finance, and, lastly, "Looking Ahead," which is optimistic in tone.

A summary of Dr. Erhard's book would credit Germany's comeback in the world market mainly to the following: American aid in the form of funds, equipment and technical assistance; the ingenuity and executive ability of Germany's economic and business leaders; and finally, the German labor force, which has energetically applied its highly developed skills.

The reviewer presumes to inject the thought, however, that despite its good showing to date, the economy of West Germany is highly vulnerable. Its population is growing rapidly; it is vitally dependent on foreign food, raw materials and markets; its taxes are high; and it now may be faced with rearmament outlays that will drain purchasing power at home and cut down available exports.

In view of the recent scuttling of the European Defense Community, the "agonizing reappraisal" of our European policy must include a careful weighing of Germany's potential, both economic as well as military. Dr. Erhard in his book offers the reader opportunity for a clearer understanding of the assets and liabilities, of the strength and weaknesses, and of the trade techniques and aspirations of the Germany that still remains free and ambitious. ■

(Cont'd from p. 2)
and services bought for direct use, is up by about $1.5 billion over last year, but most of the rise is in services such as rent, transportation, medical bills, etc. Consumer purchases of goods (mostly durables) were down slightly, particularly in automobiles and also in lumber and hardware goods. Merchants are counting on early automobile sales of '55 models and attractive pricing of Christmas goods to set a fourth quarter record.

Income statistics show that the money is there. Personal income is running close to last year's record high, and disposable income—income after taxes—is actually up. Individual savings in the second quarter of '54 showed a gain of $400 million over the corresponding period in '53. This pace has been maintained in spite of declining personal income for some individuals. The problem for business: how to entice that money into the cash registers.

With so much political discussion currently centered around France, it is well to remember that France faces serious economic problems which will become increasingly pressing as her population grows and German competition becomes more aggressive:

Industrial production has increased by a scant 7% since 1929, while German industrial production has spurted 130% during the same period. Systematic looting and exploitation by the Nazi occupation during World War II partially explain this stagnation, but the real problem, many economists believe, is the noncompetitive character of the French economy which prevents technological change and keeps prices and wages artificially high.

Dollar reserves, which up to now have been bolstered by U. S. aid to Indo-China and American offshore procurement in France, will decline. As a result, there is serious danger of another inflationary spiral that could price French goods out of the foreign market. Already, the franc is beginning to weaken on the 'free' market.

Most Western economists agree that there is nothing in this situation that a little more competition will not cure. Current economic reforms call for a gradual reduction of import restrictions and subsidies. The idea is to force the more unprofitable business to modernize or close shop.

The Department of Better Mousetraps: a clock-radio that turns off at night at one station and turns on the next morning at another . . . wound dressings that will not stick when removed . . . a new checkbook which provides carbon paper inserts and produces a duplicate check for record keeping . . . stingless iodine which has the same germ-killing properties as ordinary iodine . . . a jet-engine tank . . . fake meatballs made from sunflower seeds, pecans and wheat which, the advertisers claim, taste like the real thing . . . seed stock for a new variety of potato which is resistant to blight fungus . . . a pocket-size 3-d photoviewer which also lets you smell the object you are looking at . . . a magnetic tape recorder that will take fifty minutes' worth of messages and then repeat them three hundred times . . . an electronic device that measures an auto's speed as it whizzes by, then sets off a screaming siren to warn speeders to go slow . . . and, finally, a new discovery which will enable scientists to change the sex of spinach. That's all!